Bloomberg Businessweek
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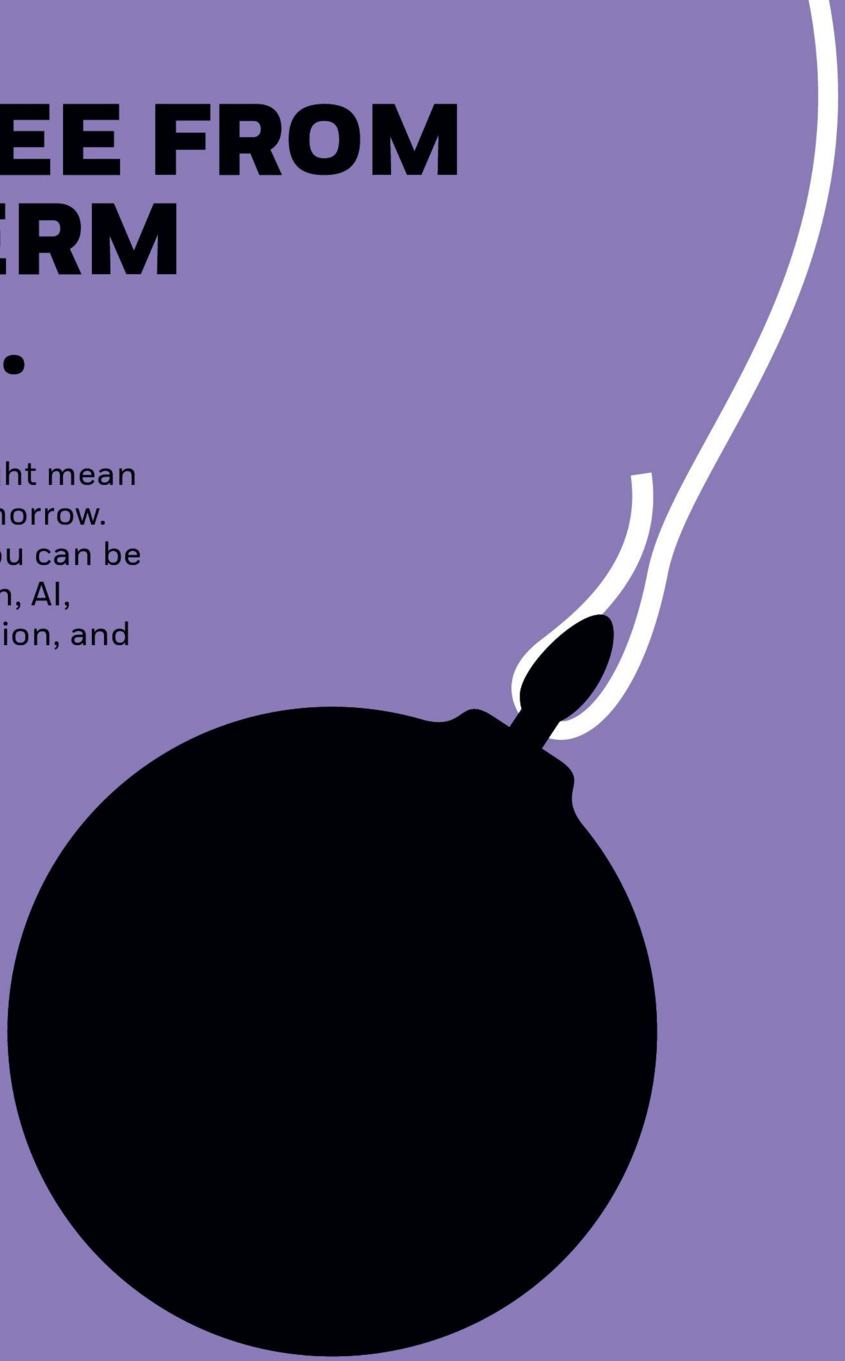
Adidas Moves Forward

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Bloomberg Businessweek

May 29, 2023



◀ Brin's airships, with carbon-fiber tubing, would be lighter and sturdier than the ones from a century ago

PHOTOGRAPH BY BALAZS GARDI FOR BLOOMBERG BUSINESSWEEK

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■ COVER TRAIL

How the cover gets made

❶

"So this week's cover is all about Adidas."

"The brand formerly known as Yeezy?"

"Yeah. They're in a bit of a tough spot."

"I would say they're in a Ye-size hole."

"You wouldn't be wrong. Turns out that Yeezys accounted for 40% of the company's profits."

"Wow. Messy."

"There's a lot riding on how they move away from Ye. And I'm not just talking about the warehouse full of unsellable sneakers."

"Sounds like the most precarious corporate conscious uncoupling in a while."

"Let's just say it's ... knotty?"



Cover: Photograph by Jessica Pettway for *Bloomberg Businessweek;* prop stylist: Stephanie Yeh

How to Contact *Bloomberg Businessweek*
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● Time is running out to avert a US default.

Negotiations between President Joe Biden and House Speaker Kevin McCarthy on raising the debt ceiling remained stalled on May 24. House Republicans accused the White House of lacking urgency in negotiations, while a Democratic aide said McCarthy was unwilling to compromise across a wide spectrum of disputed points.

● War in Ukraine

► Russia said on May 23 that it had defeated insurgents who'd crossed the border from Ukraine. But the Freedom of Russia legion, the main group involved in the attack, said it was continuing its operations in the Belgorod region.

► Yevgeny Prigozhin, leader of the paramilitary Wagner Group, blasted Vladimir Putin's war effort in an interview on May 24. "Somehow we don't get anything right," he said. Ukraine "had 20,000 people who knew how to fight, now they have 400,000."



● The World Organization for Animal Health is urging governments to vaccinate poultry—like these Indian runner ducklings in Hanspukuria, India—against bird flu, which has killed hundreds of millions of birds and infected mammals worldwide.

● More than 130 US and EU lawmakers appealed to the leaders of their



countries and the UN to oust Sultan Ahmed Al Jaber—who runs the Abu Dhabi National Oil Co.—as head of this year's COP28 climate summit. The politicians also asked that further steps be taken to limit the influence of fossil fuel companies at the talks, which the UAE will host at the end of the year.

● China's benchmark stock index erased all its gains for the year as a weaker yuan and developers' debt problems added to worries over growth and geopolitics. The CSI 300 closed down

1.4%

on May 24, with foreign investors offloading $635 million in stocks.

● Nationalist rival Sinan Ogan threw his support behind Turkish President Recep Tayyip Erdogan.

Ogan, who won 5.2% of votes in the first ballot, said he'd support Erdogan in the May 28 runoff. A selloff in Turkish assets is deepening, as investors bet on a continuation of the unorthodox economic policies that have marked Erdogan's 20-year rule.

● New home sales in the US rose unexpectedly in April, climbing

4.1%

from March. The median price of a new home dropped 8.2% from a year ago, to $420,800, the biggest decline since April 2020.

● "Don't kiss your dollars goodbye just yet."



IMF Managing Director Kristalina Georgieva, speaking at Bloomberg's Qatar Economic Forum on May 24, dismissed the greenback's doubters. The strength of the US economy and the depth of its capital markets, she said, would continue to support the dollar's global standing.

● TikTok is suing Montana.

On May 22 the company challenged the state's ban—due to take effect next year—in federal court in Missoula, saying it trampled free speech rights based on a misguided view that its Chinese ownership poses a national security threat. A group of TikTok content creators had already filed a suit against Montana on May 18, saying the law would violate the First Amendment and disrupt their livelihoods.

● Tina Turner, the legendary Grammy-winning singer who straddled genres with her distinctive growling voice, died on May 24 at her home in Switzerland. Her 1984 album *Private Dancer*, released several years after she split with Ike Turner, made her a worldwide sensation, and its biggest single inspired a hit film about her life, *What's Love Got to Do With It*. She was 83.



DUCKS: SOUMYABRATA ROY/GETTY IMAGES. AL JABER: KARIM SAHIB/GETTY IMAGES. GEORGIEVA: CHRISTOPHER PIKE/BLOOMBERG. TURNER: PAUL BERGEN/GETTY IMAGES. ILLUSTRATION BY ROB & ROBIN

One Answer to Biden's Immigration Crisis? Jobs

The Biden administration's sensible new policy for asylum seekers—requiring them to submit applications in Latin American countries before arriving—seems to have preempted a wave of migration to the border, at least for now. But what about those the US has already legally admitted into the country, who are being blocked from doing what the American economy needs them to do: work?

Take, for example, migrants admitted under humanitarian parole. Under current policy, they can't work until they go through a backlogged authorization process that can last a year or more. With few other options, migrants barred from working legally may turn to under-the-table work or government relief programs, costing taxpayers money, straining local and state budgets, and fostering dependencies that run counter to the history of US immigration. Meanwhile, US companies are struggling to find workers, with 1.6 open jobs per available unemployed worker.

President Joe Biden can solve this problem by taking executive action to allow these migrants to work legal jobs immediately—just as tens of thousands of Afghan refugees who have arrived in the US since 2021 have been able to do. The rationale is the same: People admitted into the country by US authorities shouldn't be denied the chance to work, which only hurts taxpayers, companies and the broader economy.

Democratic mayors around the country, who are some of Biden's strongest allies, have been frustrated by the administration's failure to offer them much help as thousands of migrants arrive in their cities with little means of legally supporting themselves.

"To deny people the ability to work legally," said New York City Mayor Eric Adams, "sets them up for failure." On May 22, New York Governor Kathy Hochul stood with Adams and echoed that idea. "We have a historic labor shortage," she said. "We also have this unprecedented influx of individuals arriving in New York" who want to work. She urged the Biden administration to help the state solve both problems at once.

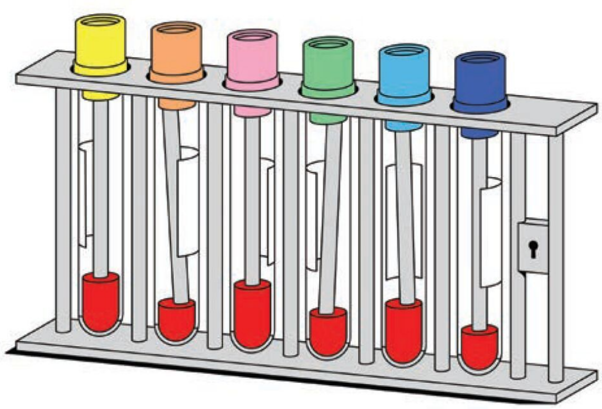
Granting work authorization to those here on humanitarian parole isn't the only step the administration can take. A variety of options are available, including expanding the list of countries eligible for Temporary Protected Status (TPS), a form of relief that allows migrants already in the US to receive work permits and avoid deportation because of conflict or natural disaster in their homeland.

Critics will argue that this strategy could encourage more migrants to come to the border. But more powerful incentives—especially the shelter that cities like New York are required to provide—already exist, as do opportunities to work in the underground economy. Moving legally admitted migrants into on-the-books jobs would help the federal government keep track of their whereabouts while also ensuring that they pay their fair share of taxes.

To be sure, this is an imperfect solution. But so long as Congress refuses to fix a badly broken immigration system—including by increasing visas for the kinds of workers US companies need, from agricultural to high-tech—migrants will continue coming in large numbers, and it will be up to the White House, in partnership with cities and states, to make the best of the situation.

Voters in both parties agree that work is at the heart of the immigration experience. The White House should take action to uphold a tradition that has brought the nation so many benefits. Ⓑ *For more commentary, go to bloomberg.com/opinion*

■ AGENDA



▶ Holmes Heads to Jail

Theranos founder Elizabeth Holmes, having lost her bid to remain free on bail while appealing her conviction, will report to prison on May 30 to begin her sentence of more than 11 years. She was convicted of defrauding investors.

▶ The Bureau of Labor Statistics releases the US unemployment rate for May on June 2. Forecasters say it should edge up slightly from April's historic low of 3.4%.

▶ On June 6, China's General Administration of Customs publishes May trade balance data, while the US Bureau of Economic Analysis puts out its April figures on June 7.

▶ France, Germany and Italy report year-over-year inflation on May 31. Data for the euro area comes in on June 1. Analysts expect inflation to continue easing in the region.

▶ HP and Box report earnings on May 30; Chewy, CrowdStrike, Nordstrom and Salesforce on May 31; Broadcom, Dell, Dollar General and Lululemon, on June 1.

▶ The Atlantic hurricane season begins on June 1. Meteorologists say this year's may be mild: An El Niño, historically a signal of weaker Atlantic storms, is likely to arrive in the Pacific before July.

▶ The Spanish Grand Prix Formula One race will be held at the Circuit de Barcelona-Catalunya on June 4. The record-shattering Dutch driver Max Verstappen hopes to return to the podium.

The GOP's Man

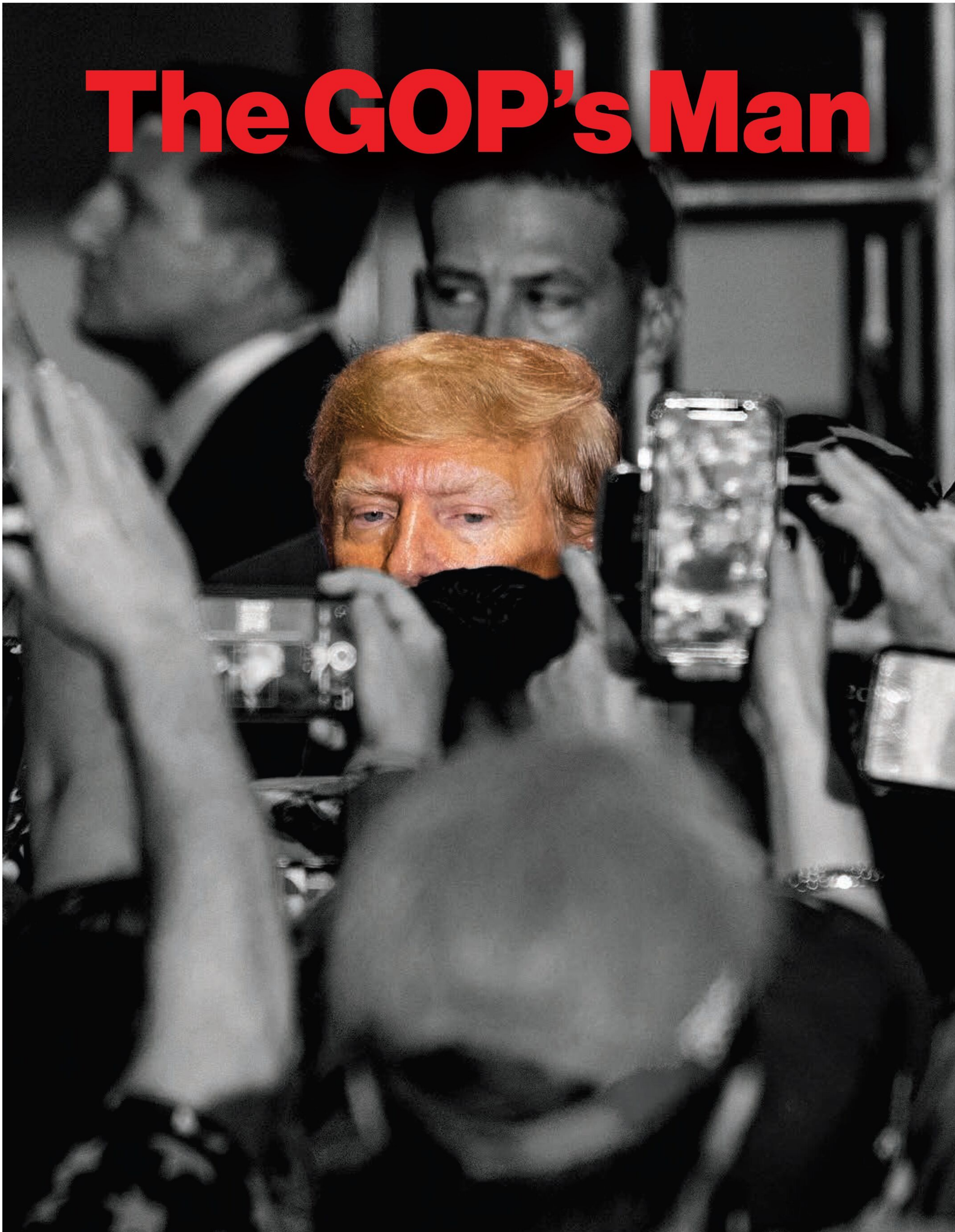


PHOTO ILLUSTRATION BY 731; PHOTO: JOSEPH PREZIOSO/GETTY IMAGES

● Despite legal woes and a growing field of challengers, Trump's grip on the Republican Party looks secure

● By Nancy Cook

Republican voters just aren't ready to quit Donald Trump, even if the party's donors and political strategists would prefer almost any other candidate.

That much was evident in mid-April in Manchester, New Hampshire, where a small crowd of Trump die-hards stood across the street from a downtown hotel where Florida Governor Ron DeSantis was slated to speak. They waved oversize Trump 2024 flags, while some cars drove by and honked in solidarity. They professed their devotion to the former president, whose indictment by the Manhattan district attorney weeks earlier on charges of falsifying business records only served to increase his popularity. "Trump is a businessman, not a politician. He is not in the deep state, and that is why they hate him so much," said Paula Johnson, a real estate agent in nearby Nashua. "That indictment was the biggest joke in the world."

Trump was still the one these voters wanted in the White House despite his mishandling of the pandemic and classified documents, the Jan. 6 attempted coup and that dinner at Mar-a-Lago with a well-known White supremacist. "He has created a movement and has shown the willingness to fight as dirty as necessary for every piece in every fight," says Jennifer Horn, former chair of the New Hampshire Republican Party from 2013 to 2017, who is now registered as an independent and plans to vote for President Joe Biden. "The party infrastructure has become so dependent on Trump for fundraising and activating the base that it cannot let go of him."

To the amazement of liberals—and the consternation of more than a few establishment Republicans—Trump remains the front-runner for the GOP nomination by a wide margin, outpacing DeSantis, his closest rival, by around 36 percentage points, according to a *RealClearPolitics* average of primary polls. Everyone else in the GOP field, including his former vice president, is polling in the single digits.

Just like in 2016, Trump is sucking up the political oxygen on the Republican side. He's already coined nicknames such as "Ron DeSanctimonius" and outfoxed CNN during a town hall before a fawning audience. He's managed to cast himself as the outsider, non-establishment candidate, even though he served as the president for four years—all before DeSantis even formally entered the race on May 24.

"It is easy to forget he is an extraordinarily good politician," says former House Speaker Newt Gingrich, an informal Trump adviser. "In 2016 he took on 16 people and beat them. No one who has run against him has come out bigger than when they started." Gingrich says Trump has been a national figure for so long—as a real estate developer, reality TV star and politician—that he understands how to command attention and drive news cycles in a way new entrants into the GOP field simply don't. "He understands the game, and he plays it unbelievably intensely and ruthlessly," Gingrich says.

After the Manhattan DA's indictment came out, Trump's rivals were forced to express support for him to avoid offending his base—the roughly 30% of Republican voters who he's joked would vote for him even if he shot someone in the middle of New York's Fifth Avenue. These loyalists show no signs of abandoning him as the 2024 race begins. And a crowded GOP field that splinters the vote works to his advantage.

It's possible that one of the Republican candidates will catch fire over the next six months and mount a real challenge to Trump, or that his legal woes will upend the race. But for now, the Trump campaign is acting like he's the inevitable nominee, as it begins to pivot to directly attack Biden on inflation, crime and immigration. Advisers also plan to play up his record on taxes and trade, as well as his Supreme Court picks, as part of their 2024 message.

Trump's staff is far more professional and organized in 2023 than it was in 2016—and more cohesive, too. Instead of infighting, there's a focus on the mechanics of winning GOP primaries as the campaign moves to lock up endorsements from members of Congress, delegates and party leaders in early voting states. Rivals such as South Carolina Senator Tim Scott and DeSantis hope to make inroads in Iowa with evangelical voters, some of whom never backed Trump. He lost the Iowa caucuses in 2016 to Texas Senator Ted Cruz.

"Trump is still polling well in Iowa," says Craig Robinson, former political director of the Republican Party of Iowa. "But if you are a Republican voter who wants to kick the tires and look around, there is plenty of opportunity to do so in this state. That is not the case if you live in Georgia or Alabama"—because Trump may have secured the nomination by the time those states hold primaries.

If he clinches the GOP nomination, Trump will face obstacles in the general election, as he attempts to win over independents and suburban voters, many of whom turned away from the Republican Party in the 2022 midterms over its hard-line stance on abortion and Trump's insistence that he won the 2020 election. These voters show few signs of returning to the GOP, so Trump's team plans to invest energy and resources courting segments of the electorate that aren't part of his base, such as Black and Hispanic voters.

The 2024 results ultimately will hinge on voters in suburbs and counties in Arizona, Georgia, Pennsylvania and Wisconsin, tiny slivers of the country that decide national elections in this highly polarized environment.

Trump "is against what these suburban voters believe," says Doug Sosnik, a former senior adviser to President Bill Clinton. But relentlessly attacking Biden over the economy and immigration and making inroads with groups that traditionally support Democrats could still be a potent strategy. Says Sosnik: "Both parties think the secret to winning is making their candidate less objectionable than the other one." Ⓑ

1

BUSINESS



There's Still Scary Stuff in Sunscreen

Edited by
James E. Ellis
and Bret Begun

● Endocrine disrupters and other worrisome ingredients persist despite FDA concerns

In 2019 the Food and Drug Administration told sunscreen manufacturers it had safety concerns about 12 ingredients that give so-called chemical lotions and sprays their protective power. The one that became the poster child for concern among researchers and consumer advocates was oxybenzone. It can upset the balance of hormones in ways that may increase cancer risk and lead to shorter pregnancies as well as lower testosterone levels in adolescent boys, studies have shown. Oxybenzone has been found in amniotic fluid and breast milk.

Four years later, oxybenzone has been largely eliminated as an ingredient—though manufacturers typically can't get to an SPF above 50 without adding it to the mix. The percentage of chemical sunscreens with oxybenzone on the market fell from 60% in 2019 to 13% this year, according to the Environmental Working Group (EWG), a research and advocacy organization in Washington, DC.

That drop has been fueled more by consumer sentiment than official action: The FDA hasn't ordered the removal of oxybenzone from sunscreens—or assured the public that it's safe. After oxybenzone and another chemical were linked to coral reef damage in Hawaii, the state banned the sale of sunscreens with the ingredients starting in 2021. Two counties, including Maui, have since prohibited the sale of any chemical sunscreens.

And not much has changed with the other ingredients the FDA raised concerns about. At the time, the agency said that without more data it couldn't continue to let them be used in sunscreens. But the industry, led by a lobbying group called the Personal Care Products Council (PCPC), asked the FDA to wait; the council said it would get the FDA more information by this year. That hasn't happened. "We still have not seen any data submissions or plans for data submissions," says Homer Swei, senior vice president for healthy living science at the EWG.

A PCPC spokesperson says the FDA's work during the Covid-19 pandemic diverted the agency from providing guidance the industry needed to gather the data, delaying what the council referred to as a draft timeline. The PCPC sent *Bloomberg Businessweek* a letter it sent the FDA in September 2021 updating the agency on its progress. An FDA spokesperson says, "The topic of sunscreen ingredients remains a high priority for the agency, and we will continue to work as expeditiously as possible with our external partners to best protect public health."

Oxybenzone and other ingredients in question, such as homosalate and avobenzone, are known as endocrine disrupters. The National Institute of Environmental Health Sciences has linked endocrine disrupters to attention-deficit/hyperactivity disorder in addition to the cancer and fertility issues. In the US, sunscreen makers use homosalate in concentrations as high as 15%; in the European Union, the limit is 0.5%.

The concerns aren't limited to endocrine disrupters. Research published in 2021 found that some sunscreens with the popular ingredient octocrylene tested positive for benzophenone, a possible carcinogen that can form when octocrylene breaks down over time. German chemical manufacturer BASF SE told sunscreen makers that year it would stop supplying octocrylene after "listening to the growing concerns" about it. The company stopped fulfilling orders in December 2022, according to a letter obtained by Bloomberg News.

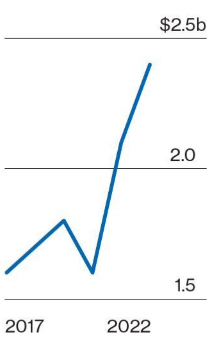
The FDA doesn't want to discourage people from using sunscreen. "Given the recognized public-health benefits," the spokesperson says, "the FDA is committed to finding ways to facilitate the marketing of sunscreen products." But the agency also hasn't approved newer, alternative ingredients. It considers sunscreens over-the-counter drugs, though when it began regulating their ingredients 40-plus years ago, it didn't require companies to supply much data on the chemicals. In 2020 the FDA published a study in the *Journal of the American Medical Association* that found sunscreen ingredients entered the bloodstream after just one use and can stay in our systems for as long as 21 days. The study showed that oxybenzone and homosalate lasted the longest.

European regulators have moved much faster to get newer chemicals to market, in large part because they treat sunscreens more as cosmetics and don't require as much data as the FDA does now. Some ingredients in use in the EU aren't absorbed in the same way as older ingredients on the market in the US, researchers say. "We really need to develop these better ingredients that have a better safety profile," says Kelly Dobos, a cosmetic chemist who's worked in the industry and is now a consultant.

Safety concerns aside, the 12 ingredients the FDA has flagged mainly protect against ultraviolet B rays, which cause sunburn. In Europe, newer formulations also are better at boosting protection from UVA rays, which penetrate the skin and can cause cancer. Avobenzone and the mineral zinc are considered the best ingredients currently available for ▶

"We really need to develop these better ingredients that have a better safety profile"

▼ US retail sales of sun protection products



PHOTOGRAPH BY RYAN DUFFIN FOR BLOOMBERG BUSINESSWEEK. DATA: EUROMONITOR INTERNATIONAL

◀ UVA protection in the US. The sunscreen industry hasn't yet produced the safety and effectiveness data the FDA requires for newer ingredients.

Dutch company DSM-Firmenich AG has tried to get FDA approval for bemotrizinol, an ingredient used in the EU for more than 20 years. DSM has yet to successfully navigate the FDA's process, though Carl D'Ruiz, a senior manager for scientific advocacy and business development at the company, says it's aiming for FDA clearance by the first half of next year. "Unfortunately some other companies that have been working to get these new [active ingredients] approved in the US have dropped work on it because it takes so long," Dobos says. The FDA says it "continues to encourage interested parties to work with the agency to provide necessary data."

In the meantime, consumers are turning to mineral sunscreens. Popular versions such as zinc oxide and titanium dioxide, which the FDA has said are safe, sit on the skin and block the sun's rays. Zinc oxide is a "broad spectrum" sunscreen, meaning it blocks UVA and UVB rays. The global mineral sunscreen market totaled $960 million in 2021 and is expected to reach $1.6 billion in 2031, according to Transparency Market Research in Wilmington, Delaware. They have a reputation for being harder to rub in than chemical varieties, making people look like ghosts, though many brands have solved this issue and some versions are even tinted.

Douglas Grossman, co-leader of the University of Utah Huntsman Cancer Institute's Melanoma Center, recommends using mineral sunscreens. "It avoids all the issues with chemical sunscreens," he says. "It just makes common sense that you put something on the skin and it blocks the UV, it's going to work better than if you have something that absorbs into the skin and the UV penetrates the skin."

With both chemical and mineral sunscreens, an SPF above 30 doesn't provide significantly greater protection, say Grossman and Dobos. SPF 30 blocks 97% of UVB rays, while SPF 50 blocks 98%, and it takes higher concentrations of ingredients to reach higher SPFs. The FDA has proposed prohibiting sunscreen makers from selling products labeled with an SPF higher than 60.

Of course, avoiding the sun in the middle of the day and wearing protective clothing such as a hat and long sleeves are also effective tools in combating the negative effects of sun exposure. "When I talk to patients," Grossman says, "I really try to emphasize other things they can do besides sunscreen that can make a difference." —*Anna Edney*

THE BOTTOM LINE The FDA's safety concerns about some popular ingredients in sunscreens haven't been alleviated four years after the agency first raised them.

Can Jazz Survive the Streaming Age?

● It accounts for less than 1% of music streams. Verve, Ella Fitzgerald's label, eyes new artists like Samara Joy to change this

The fabled Village Vanguard in New York is filled on this April evening with fans of Samara Joy. This isn't simply because the gifted 23-year-old singer brings to mind Sarah Vaughan and Ella Fitzgerald at their peak. The audience is here to be in the presence of a once-in-a-decade jazz superstar whose career has soared since she was crowned best new artist at the 2023 Grammy Awards in February. In between songs, Joy says she's still getting used to it. "People come up to me in the street," she says, laughing in disbelief. "And I'm not even dressed!"

Listening intently from one of the club's banquettes is Jamie Krents, head of Universal Music Group's Verve and Impulse! record labels, whose catalogs boast some of the most important works of Fitzgerald and Vaughan, plus saxophonists Charlie Parker and John Coltrane. Now it's Krents's job to sell *Linger Awhile*, Joy's much-lauded Verve debut.

"It's taken a while for that consumer to feel comfortable streaming"

You'd think this would be easy, given the Grammy buzz over Joy. But not necessarily. Jazz in recent decades has struggled to get listeners, and nowhere is that more apparent than on Spotify, Apple Music and other services on which the genre accounted for a mere 0.8% of all streams last year in the US, according to Luminate, a music industry data provider.

Krents acknowledges there are some music lovers who find jazz intimidating. "They just think, 'I don't like that,'" he says. Aficionados of the genre, who tend to be older, have been slow to migrate to Spotify and Apple Music—which is also true of classical music devotees. "It's taken a while



◀ Fitzgerald with Verve Records founder Norman Granz in the late 1950s

FITZGERALD: MICHAEL OCHS ARCHIVES/GETTY IMAGES. JOY: MATT WINKELMEYER/GETTY IMAGES

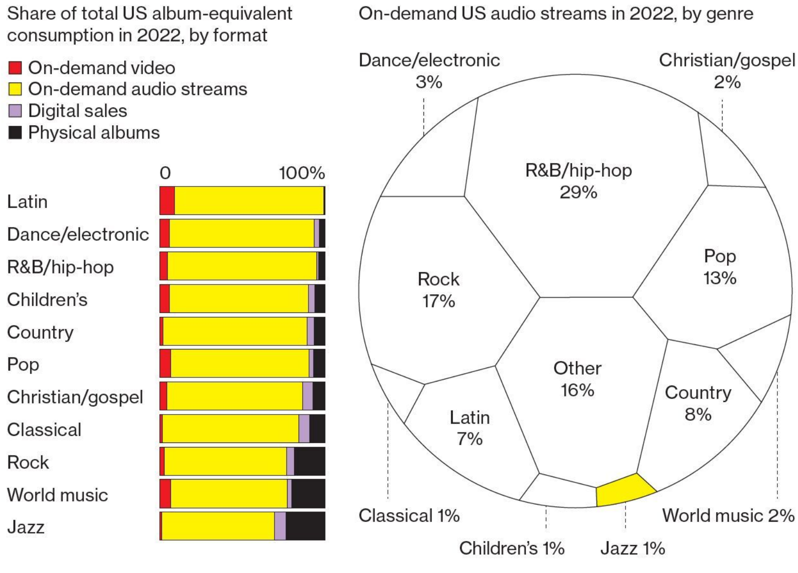
for that consumer to feel comfortable streaming," says Dickon Stainer, president of global classics and jazz at Universal, and Krents's boss.

The same could be said of jazz musicians, some of whom have been reluctant to make their music available for streaming because the format rewards them with fractions of a penny when someone listens to one of their songs. "It's unsustainable," says Yulun Wang, co-founder of Pi Recordings, a respected independent jazz label in New York.

One of the few bright spots for the genre is the resurgence of vinyl. Luminate says jazz releases accounted for 6% of all vinyl album sales last year; musicians are now lugging cartons of grooved plastic to peddle on tour. "I get to take home a respectable piece of change," says Christian McBride, the jazz bassist and associate artistic director of the National Jazz Museum in Harlem. As for streaming? "It's a nonfactor in terms of income," he says.

Krents is tasked with making sure jazz musicians on Verve and Impulse stream better, along with other off-center artists on his roster including mellow indie rocker Kurt Vile and Pakistani vocalist Arooj Aftab. Krents might not seem the most obvious savior of jazz in the digital era. With his cropped hair and leather jackets, he looks like a rock musician—and, in fact, he is one. In his New York office hangs his 1965 Fender Jazz Bass, which he trots out some weekends to play gigs alongside old friends from Oberlin College with whom he toured in a band called French Kicks after graduating in 1997.

How Music Gets Played



DATA: LUMINATE

The following year he landed a temp job at Verve. He knew something about jazz, but nothing compared with what he gleaned working side by side with the mavens in Verve's catalog department. He moved to the international division in 2003 and traveled overseas with some jazz greats: pianist Herbie Hancock, guitarist George Benson and vocalist Diana Krall.

Krents was named president of Verve and Impulse, and also Verve Forecast—a more ▶



● Joy

◀ conventional rock and pop label–in 2022, but he'd already been working closely with current Verve artists including pianist and former *Late Show With Stephen Colbert* band leader Jon Batiste, whose *We Are* won a Grammy for album of the year in 2022. Batiste, who's made both jazz and hip-hop-flavored records for Verve, pays his label boss the ultimate compliment from a musician. "He's got ears," he says. "You'd be surprised how many people who work in high positions at labels can't hear."

When it comes to boosting jazz streaming, Krents says one trick is to persuade services to put songs on playlists that are less genre-specific. Sure, he says, you can put Ella on Spotify's Women of Jazz playlist, but why not Late Night Vibes, where she might be heard alongside Alicia Keys and attract new fans?

In some cases, Krents says, it might also make sense for jazz artists to record shorter songs that are more likely to be picked up by the algorithms employed by streaming services. "Jon Batiste has new music coming out this year, and you will absolutely hear that lens applied," he says.

Krents is also taking full advantage of the vinyl boom by working with not only indie retailers but also chains such as Barnes & Noble and Target Corp. Among the items that have sold well are several newly unearthed albums by the late Coltrane on Impulse. "Some of these really punched above their weight on vinyl," Krents says.

Then there's Joy. Even before she clinched her best new artist Grammy, Verve had arranged for her to record a gospel-imbued cover of Adele's *Someone Like You* exclusively for Spotify Technology SA. Verve also recently released an expanded edition of *Linger Awhile* with eight new tracks to keep her fans satiated. "One of the things that tends to stunt an artist's growth on streaming is long gaps between releases," Krents says.

By late-May, Joy had 645,000 monthly Spotify listeners, which might've paled next to Fitzgerald's 4.8 million but was far more than most jazz musicians of her age. Krents says it helps that Joy is as comfortable on TikTok as she is on morning TV shows. "She's very, very real and a normal 23-year-old person," he says. "I think that's good for jazz. It helps people feel like they have a path into this kind of music."

Joy is already working on new music for Verve. Does she feel pressure to take a more commercial direction? "No," she says. "No pressure. I just feel a responsibility to be myself." —*Devin Leonard*

THE BOTTOM LINE Verve is trying to make jazz releases more marketable by getting songs on less genre-specific streaming playlists and pressing more albums on vinyl, where the genre is hot.

The Race to Drive Midsize Trucks Upmarket

● Toyota's top-selling Tacoma is getting a hybrid version as rivals roll out more expensive features to steal its thunder

Sam Wedll has been driving his Toyota Tacoma pickup on the rugged roads of Northern California for seven trouble-free years, racking up almost 100,000 miles, so he's interested in the redesigned version of the truck coming later this year. He paid $34,000 for his truck in 2016, loading it with plenty of options. Wedll is eyeing the new gas-electric hybrid that Toyota Motor Corp. is going to offer, but he's not interested in paying luxury prices.

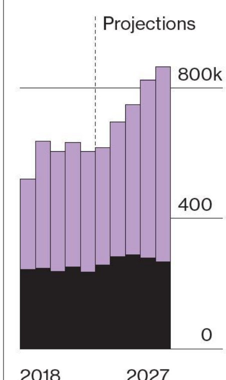
"The hybrid is pretty interesting to me because I like the idea of the fuel efficiency," says Wedll, 47, a casino operations manager in Blue Lake, California. "I'm just trying to save some costs wherever possible."

The Tacoma, known as the Taco to its legions of loyalists, is the leader of the pack in midsize pickups, one of the fastest-growing auto markets of the past decade. With outdoorsy weekend warriors and do-it-yourselfers looking for a truck that could fit in their garage, midsize pickup sales more than doubled from 2010 to 2020. General Motors Co. and Ford Motor Co., which abandoned the segment when sales slowed early this century, returned with new trucks to take on the Tacoma, which has dominated the medium truck market for almost two decades.

Although *Car and Driver* magazine predicts the most lushly appointed versions of the new Taco could approach $50,000 (prices won't be announced until later this year), Toyota insists it isn't backing away from budget buyers even as it rolls out fancier trucks. The current Tacoma starts at $28,030, and the company says affordability is critical to its success. In fact, Toyota will continue to offer the Taco with an old-school stick shift. The Tacoma controls 42% of the midsize truck market and outsells Ford's offering 4 to 1. That's a role reversal from the full-size pickup market, where Ford's F-Series has ruled the road for 46 years.

Tacoma sales in the US surpassed 237,000 last year, more than twice the number of GM's No. 2-ranked Chevrolet Colorado, according to consultant LMC Automotive. But as growth in the overall segment slows, the midsize market is developing into more of a turf war, with manufacturers vying for the sweetest high-margin spots.

▼ US midsize pickup sales
■ Toyota Tacoma
■ All other



TOYOTA. DATA: LMC AUTOMOTIVE

"This segment is likely past its prime growth spurt," says Jeff Schuster, president of the Americas for LMC Automotive. That helps explain why all the big manufacturers are fielding redesigned trucks this year—often with more features and richer sticker prices—as they try to solidify their position in a highly profitable market where average prices have risen 27% in the past five years and now stand at almost $43,000, according to automotive researcher Edmunds.com Inc.

"The new frontier has shifted from SUVs to trucks," says Jessica Caldwell, executive director of insights at Edmunds. "We're seeing automakers try different concepts and executions to try to grow volume."

Higher pricing is becoming a hallmark for this vehicle segment once known for attracting penny pinchers. Later this summer, Ford is coming out with a high-performance, 405-horsepower Raptor version of its Ranger pickup that starts at $57,000, an eye-watering price for a midsize pickup. Toyota's first redesign of the Tacoma in eight years also includes an off-road model dubbed Trail Hunter that's expected to explore new heights in pricing.

Earlier this year, GM released new versions of its Chevy Colorado and GMC Canyon, which included both a Trail Boss version of the Colorado, starting at $38,495, and a 308-horsepower ZR2 model that runs $10,000 more. The pricier Canyon sold the fewest of any midsize truck—only 27,819 last year—but that's still a 15% increase from 2021.

One concept still missing: a plug-in pickup. Midsize trucks are expected to be one of the last automotive categories to electrify, because a heavy battery reduces a vehicle's ability to tow and traverse rugged terrain. Plus, the premium prices electric vehicles command are a better fit in the full-size pickup market, where six-figure sticker prices aren't uncommon.



▲ The 2024 Toyota Tacoma lineup

"It adds cost, and it adds weight, and both of those things aren't good for off-roading," says Gretchen Sauer, marketing manager for the Ford Ranger. "It's just not a priority given what our customers use the truck for."

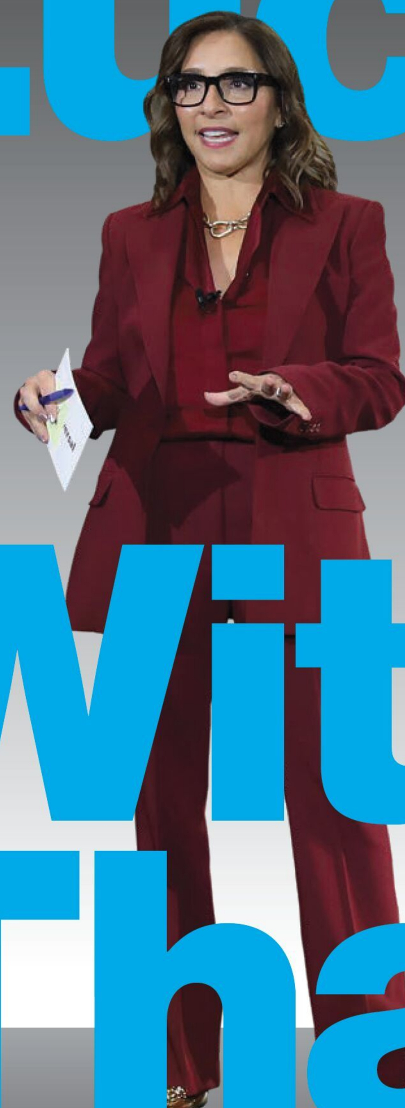
For now, Toyota will offer the only hybrid in the midsize market. To overcome the wimp factor, the company is pairing an electric motor with its most powerful gasoline engine to create a 326-horsepower hybrid. "In our lineup, the hybrid will be the more powerful, exciting-to-drive vehicle," says David Christ, chief of the Toyota brand in North America. —*Keith Naughton*

THE BOTTOM LINE Midsize trucks were once known as favorites of penny pinchers. Automakers are now adding more creature comforts and power options to boost their prices and profits.

2

TECHNOLOGY

Good Luck With That



Linda Yaccarino has a uniquely challenging job as the new CEO of Twitter

Edited by Joshua Brustein

FROM LEFT: AWNEWYORK/SHUTTERSTOCK; REBECCA BLACKWELL/AP PHOTO

Elon Musk joked in December that he'd step down as Twitter Inc.'s chief executive officer once he found someone "foolish enough" to take his place. Now that he's found that person, a looming question is whether he'll get out of her way—or make her feel foolish for having accepted.

At first glance, Musk's choice, outgoing NBCUniversal Media LLC ad chief Linda Yaccarino, looks like an ideal pick. She has deep media business relationships and offers Twitter the chance for a face-saving reset with advertisers, who've been fleeing the social network since Musk bought it in October. Following the news of her hiring, advertising agency GroupM, which counts Coca-Cola Co. and Alphabet Inc.'s Google as clients, removed its designation of Twitter as "high risk," a label it put on the platform after Musk took over.

The unique challenge of Yaccarino's new post will be to continue improving relationships with advertisers while simultaneously keeping Musk happy. Twitter has always relied on ads for most of its revenue, and its advertiser relationships since Musk took over have been rocky, to put it mildly. He's fired most of the people in charge of keeping the site clean enough that brands would want to be associated with it, while he's personally engaged with—and at times embraced—Twitter users peddling conspiracy theories, circulating antisemitic tropes or harassing other users.

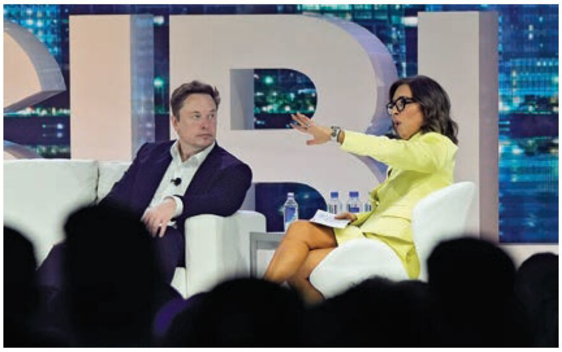
Musk has also played an increasingly partisan role in national politics. He's cultivated ties with Republicans and encouraged his millions of Twitter followers to vote for a GOP Congress ahead of the 2022 midterms. On May 24, Florida Republican Governor Ron DeSantis planned to announce his 2024 presidential campaign in a Twitter space livestream with Musk.

While at NBCU, Yaccarino said advertisers want to put their ads on platforms where they won't have to worry about toxic content, using that distinction as a way to promote old-school television over social media. Of course, Musk doesn't seem to care much about advertising; he's been trying to shift the company's business model toward the $8-per-month Twitter Blue subscription service that has so far attracted less than 1% of users, while also alienating many of Twitter's existing super users. As of March, Twitter's advertising revenue was down 50% from October, according to Musk.

"Musk is accustomed to getting his way and going against the advice of those around him when their advice contradicts his wishes and plans," says Christy Pruitt-Haynes, global head of talent management and performance at NeuroLeadership Institute, a human resources consulting firm. "That dynamic is going to create an uphill battle for Ms. Yaccarino."

Musk has said Yaccarino will "focus on business operations," a job description that sounds more like that of a chief operating officer than of a CEO. Twitter is clearly still the Musk show. A potential model for success could be Sheryl Sandberg's "adult in the room" role for Facebook founder Mark Zuckerberg or Safra Catz's CEO role at Oracle Corp., with founder Larry Ellison remaining as president and chief technology officer.

The appointment of a woman to a highly visible but somewhat disempowered executive role at a company in crisis had people immediately invoking the specter of the glass cliff. This term, coined in 2005, describes how a woman is more likely than a man to end up in a leadership role at a company when it's facing a crisis, setting her up for failure. Or, says one former Twitter employee who asked not to be named discussing a previous employer, Yaccarino is a leader who'll be more palatable to brands than Musk and who can eventually take the fall for his bad ideas.



◀ Musk and Yaccarino

Yaccarino took the job, in part, because she's ambitious and wants to raise her profile, according to people familiar with the matter, who asked not to be named divulging private conversations. She put herself up for several promotions at NBCUniversal that she didn't get, one of the people says. These included CEO of NBCUniversal, as well as positions running Peacock, the company's ad-supported streaming service, and directing advertising across Comcast's three businesses: its namesake cable company, NBCUniversal and Sky.

Twitter didn't respond to requests for comment and an interview with Yaccarino. She and Musk didn't respond to separate requests for comment.

Yaccarino is joining a company that's lost 75% of its staff through firings and resignations, including most of those who'd been managing relationships with advertisers, policymakers and vendors, leaving it with about 1,000 employees. Musk's continued engagement could make it tricky to begin rebuilding trust. Following Musk's takeover, ▶

"Musk is accustomed to getting his way"

◀ Twitter stopped paying some vendors, according to a series of lawsuits. His transition team told employees that "the fact that Twitter was legally or contractually obligated to pay a particular sum would be irrelevant to the decision of whether to actually pay it when that amount came due," according to a recent class-action lawsuit by employees who'd been fired or had resigned.

Several employees at Twitter who attempted to fulfill the company's contractual financial obligations—a chief financial officer choosing to give employees their vested shares against Musk's wishes, for instance—were punished by firing, the suit states. Others said they left the company rather than continue in their roles and do what they felt was breaking the law, including lying to authorities or business partners.

To Musk's critics, he hasn't just tolerated the kind of abusive or false tweets that have concerned advertisers since even before he took over, but he's also endorsed many of the posts and replied to many of them, all in the name of supporting free speech. "He has made it quite clear from the outset that whatever happens—if he has to lose money—he'll still say what he wants to say when he wants to say it," says Matt Navarra, an independent social media consultant and industry analyst.

When Musk does find someone he likes working with at any of his five companies, he can be both loyal and demanding. But his attention comes with downsides, and his attitude can shift quickly. When Twitter advertising leader Robin Wheeler resigned in the days following Musk's takeover, he persuaded her to stay, then fired her a week later, people familiar with the matter said at the time.

Resigning from one of Musk's companies doesn't necessarily bring the ordeal to an end, either. After Yoel Roth, the former head of trust and safety at Twitter, left in November, Musk tweeted conspiracy theories about him. These attacks were followed by a wave of online threats from other Twitter users that became serious enough that Roth fled his home the following month.

It's unclear where Yaccarino would draw lines with Musk. She's known to be a tough but friendly negotiator, according to industry peers. When she interviewed Musk on stage at an advertising conference in April, she called him "buddy" and "friend" and gave gentle advice—to not tweet after 3 a.m., for instance—and asked if he felt he'd done enough to ensure ads don't end up alongside hateful content.

Musk suggested that Twitter must be doing well by advertisers, otherwise "Disney would have pulled their ads a long time ago and haven't." Yaccarino asked if Musk would be receptive to adjusting Twitter's product and even his own behavior to improve the advertiser experience. The response was an emphatic no. "If I were to say, 'Yes, you can influence me,' that would be wrong," Musk said. "That would be very wrong." *—Sarah Frier, with Gerry Smith, Diana Li and Aisha Counts*

THE BOTTOM LINE Elon Musk is a tricky guy to work for, and Twitter's new CEO has to find a way to repair relationships with advertisers and partners while staying on his good side.

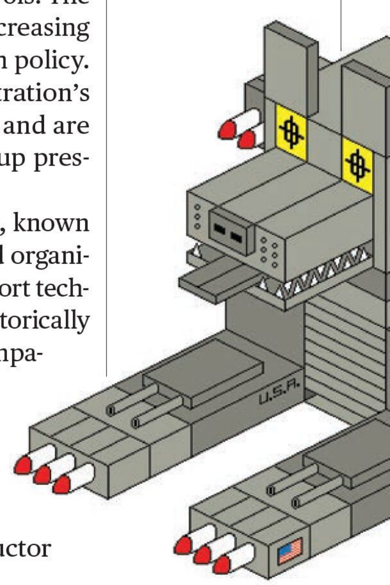
The US Expands Its Tech Blacklist

● Export controls have become a common way for the US to squeeze China and Russia

When the Trump administration in 2019 blacklisted Huawei Technologies Co., most US companies immediately cut ties with the Chinese multinational, then one of the world's largest smartphone manufacturers. One notable exception was Seagate Technology Holdings Plc, the leading producer of hard-disk drives. For years, Seagate continued to export to Huawei, eventually selling it about 7.4 million drives worth more than $1 billion.

In April the US Department of Commerce announced that Seagate had agreed to pay the largest fine ever against a US company to settle an administrative violation of export controls. The $300 million penalty was a sign of the increasing importance of such controls to US foreign policy. They've been key to the Biden administration's response to Russia's invasion of Ukraine and are playing a central role as the US ratchets up pressure on China.

The Commerce Department's blacklist, known as the Entity List, is a roster of people and organizations to which US companies cannot export technology without first securing a license. Historically it's covered foreign scientists and shell companies, and it's been used to cut off sales to terrorist groups. In recent years, the list has expanded to include more than 600 Chinese entities, including large companies such as computer server maker Inspur Group and chipmaker Semiconductor



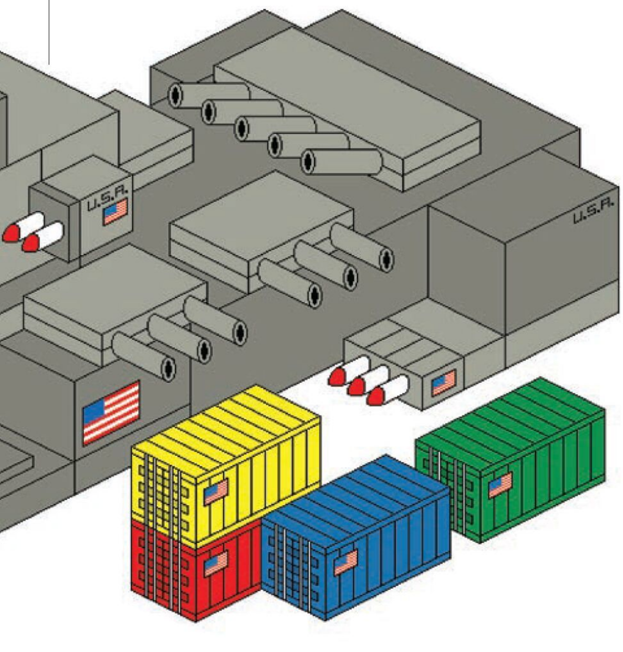
Manufacturing International Corp. After the US shot down a high-altitude balloon in February, it added six Chinese companies it said were linked to a Chinese balloon-espionage program.

The Biden administration has been signaling that it will be harder for those who ignore the restrictions to avoid consequences. The Bureau of Industry and Security (BIS), the Commerce Department office that administers the list, has issued a series of fines this year for companies that have provided technology to Russia. On May 16 the government also announced the first arrests resulting from the work of the recently established Disruptive Technology Strike Force, which included a man the government says stole military technology with the hope of marketing it to Chinese customers, and two Russian nationals living in Florida accused of selling airplane parts to sanctioned Russian businesses.

"Export controls are having a moment," Matthew Axelrod, the Commerce Department's assistant secretary for export enforcement, said at a national security conference in Washington on May 17.

While the shift began as the Trump administration became more aggressive toward China, it's continued under Biden, whose administration has made export controls central to its policy toward Russia. Since Russia invaded Ukraine, the number of Russian entities on the list has grown by more than 500, bringing the total to nearly 900. The US coordinated with about 40 allied nations to tighten controls, making it hard for Russia simply to shift to other suppliers.

From the beginning of the war to this March, US shipments of all goods to Russia have plunged about 90% by value. But the experience with Russia shows how hard it is to stop the flow. Millions of dollars in US-made chips, aircraft parts and other high-tech gear get to the country as companies learn how to evade export controls, often by routing shipments through third parties such as Kazakhstan and Kyrgyzstan.



Using export controls against China is even more difficult. The US exported only $6.4 billion in goods to Russia in 2021, before the controls were put in place, compared with $154 billion in exports to China. Many US businesses consider the Chinese market vital. And US businesses could be harmed if China retaliates by tightening its own restrictions, as it seemed to do on May 21 when it warned operators of key infrastructure that buying products from US memory chip maker Micron Technology Inc. posed "significant security risks."

There's also the risk of making the rules too onerous for the government to enforce, especially when it comes to technology that could have both commercial and military uses. "Where it gets hard is in all the dual-use and commoditized stuff," says Martin Chorzempa, a senior fellow at the Peterson Institute for International Economics in Washington. "To quote Frederick the Great: 'He who defends everything, defends nothing.'"

Hawks such as Michael McCaul, the Republican chairman of the US House Committee on Foreign Affairs, want to go further. He cites the $23 billion in licenses that the BIS has granted for US companies to sell technology to Chinese companies on the Entity List in just the first quarter of last year as evidence it's too soft. In 2022 some House Republicans introduced a bill to move responsibility for export controls from the Commerce Department to the Department of Defense, which they think would be more aggressive.

Still, there's debate about whether export controls are effective—and even exactly what they're supposed to accomplish. Is the US hoping to keep China from ever developing the technology the US and its allies have today, or just delay it to maintain as large a lead as possible? Cordell Hull, who led the BIS during the Trump administration, says that while export controls may slow progress, it's impossible to prevent China from developing its own capabilities in all areas. Over time, through its own research, the nation is likely to match US technology that today is considered cutting edge. "Think of the cellphone you had six years ago and the one you have now," he says. "Technology just advances." *—Eric Martin, with Daniel Flatley*

THE BOTTOM LINE Restrictions designed to deprive Russia of technology provide a test run for a more difficult and riskier campaign targeting China.

▼ US Entity List of restricted people and organizations, by country

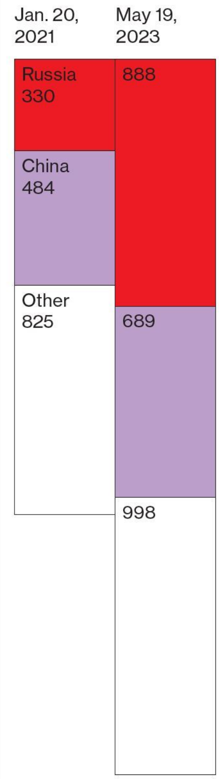


ILLUSTRATION BY NICK LITTLE. DATA: BUREAU OF INDUSTRY AND SECURITY

Escape From LA Offices

● Landlords of downtown commercial buildings are defaulting or selling at a loss

From a distance, downtown Los Angeles can look like the Wizard of Oz's Emerald City, a shimmering skyline with the Hollywood Hills and San Gabriel Mountains as a backdrop. Up close, its buildings tell a bleak story of the turmoil roiling US commercial real estate.

With downtown LA's office-vacancy rate at a record 30%—up from an already high 23% before Covid-19—buildings have plunged in value as workers stay away from the urban core of a sprawling, car-centric region. It's a scenario unfolding in downtowns across the US after a pandemic that turned millions of Americans into remote workers, afflicting cities with vacant storefronts, crime concerns and fiscally strained transit systems. Now rising interest rates are colliding with falling real estate prices, hurting building owners whose debt burdens exceed the market value of their properties. Some loans on major buildings are already in default. That in turn has spurred warnings of financial instability from bankers, investors and the Federal Reserve, which said in a May report that "a correction in property values could be sizable."

More than $900 billion of debt on US commercial real estate is set to mature through 2024, and much of it will need refinancing at interest rates that have more than doubled since early last year. Values for top-tier office properties have plunged 25% in the last 12 months, while the broader market is almost 40% below pre-Covid levels, according to Green Street, a real estate analytics provider.

Dense cities such as San Francisco and New York face growing gluts of obsolete office space, but they also have histories of rebounding after crises such as the dot-com bust and the Sept. 11 attacks. The outlook is murkier in the downtowns of metro areas such as Atlanta, Chicago and Houston that sprawl into freeway-laced suburbs and offer alternatives to the central business districts. The problem is especially acute in Los Angeles. "In terms of distressed borrowers in the market, downtown LA might win the prize," says Lea Overby, a commercial real estate analyst with Barclays Plc. "The product is old, tenants are downsizing, and the area isn't appealing."

The top three dozen office buildings in downtown LA are almost all underwater on their loans, according to Colliers International Group Inc., a commercial real estate brokerage. They average more than $230 in debt per square foot, in a market where property values are likely far below

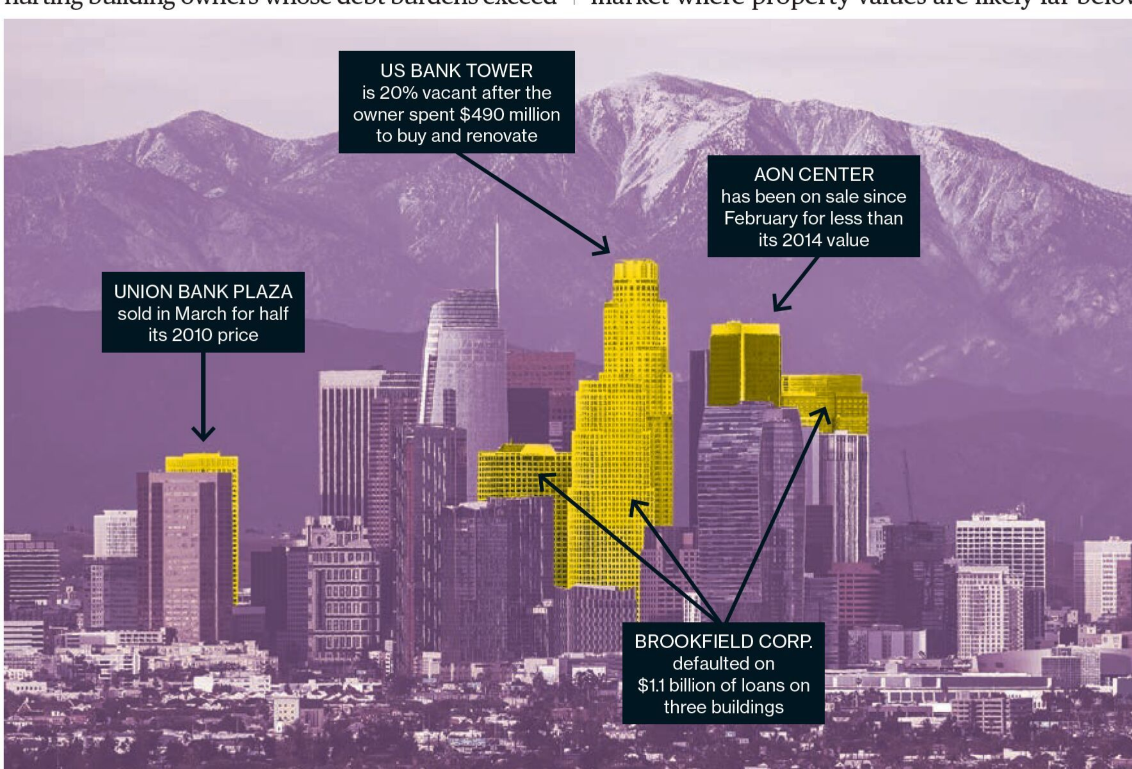


PHOTO ILLUSTRATION BY 731; PHOTO: GETTY IMAGES

Edited by Pat Regnier

Cities Have a Surplus of Empty Workspace

Office vacancy rates of major central business districts, Q1 2019 to Q1 2023



*SAVILLS REPORTS ALL OF SAN FRANCISCO, WASHINGTON AND MANHATTAN AS CENTRAL BUSINESS DISTRICTS. DATA: SAVILLS

that. This year's only major sale—the Union Bank Plaza—was for about $154 a square foot.

Foreign pensions and sovereign wealth funds are among the biggest holders of US commercial real estate, assets considered havens until the pandemic upended office norms. Downtown LA was a center of Asian investment, attracting billions of dollars from developers such as China Oceanwide Holdings Ltd., which has left the shell of a mixed-use project sitting stalled for years. Korean Air Lines Co. opened the Wilshire Grand Center, a 73-floor mixed-use hotel and office complex, in 2017. About 20% of the office space is vacant.

Many US office owners will skimp on building improvements, milking revenue while properties slowly decline and tenants turn off the lights. Other landlords will return the keys to lenders, getting rid of money losers. In some cases, prices may need to approach the value of raw land to attract new investors, Overby says. More broadly, the emptying out of towers threatens the vibrancy of downtowns and a decades-long bet on dense urban landscapes in cities traditionally known for sprawl.

Los Angeles County is 4,750 square miles—almost as big as the state of Connecticut—with a population nearing 10 million. The metropolis has been called "72 suburbs in search of a city," a comment variously attributed to Dorothy Parker, Aldous Huxley and H.L. Mencken, among others. No S&P 500 company calls downtown home. It's a hub for offices of government agencies as well as legal and accounting firms, with a handful of financial companies. The oil and aerospace businesses that drove the city's post-World War II boom are long gone. The entertainment industry is almost everywhere but the city center: Disney is in Burbank; Warner Bros. Discovery and Comcast are in the San Fernando Valley; Netflix and Paramount Global are in Hollywood.

Still, before the pandemic, downtown LA was in the midst of a renaissance. Early 20th century factories, warehouses and movie theaters found new lives as apartments and hipster hangouts. The population ringed by the freeways that encircle downtown grew to 90,000 in 2020, from 15,000 in the 1990s. Street life teemed with outdoor cafes, bicyclists and dog walkers, appealing to the type of people who wanted Manhattan-like urban living.

Then came Covid. Homeless encampments, previously concentrated in downtown's Skid Row, spread as health officials argued that forcing the unsheltered indoors would transmit the virus. After the May 2020 murder of George Floyd in Minneapolis sparked protests followed by looting in downtown LA, police dialed back enforcement. Stores and restaurants were boarded up and never reopened. "It feels like you couldn't have created a set of worse circumstances," says Jessica Lall, who headed a downtown business development district before joining CBRE Group Inc. as a managing director in January. "Money's not the only reason. The reasons are safety, security, amenities."

Epic commutes and clogged freeways also are a deterrent for office workers. The alternatives to driving aren't appealing. Daily rail and bus ridership on the Los Angeles County Metropolitan Transportation Authority is down 30% since before the pandemic. In the first three months of the year, 22 people were found dead on the Metro system, many of them suspected drug overdoses, Mayor Karen Bass said in a briefing in April. That equals the total for all of 2022.

Bass, who took office in December, presented a budget that appropriates $1.3 billion to help rehouse the city's 42,000 homeless and $1.9 billion for the LA Police Department, some of which will be used to hire more officers. In May the city council approved a plan to add housing for 125,000 downtown residents. "The success of downtown is essential to the success of our entire city," Bass said in a statement to Bloomberg. "Thriving commercial districts do not happen by accident." ▶

◀ Christopher Rising, a second-generation LA developer, owns four downtown office buildings, having sold several properties to invest the proceeds in industrial real estate, which has more demand. The PacMutual complex, a landmark he sold for $200 million in 2015, hit the market in January and is likely to sell for half that price, he says. Similarly troubled situations have unfolded at properties within blocks of each other downtown. Late last year, Starwood Property Trust Inc. foreclosed on the century-old Broadway Trade Center. Oaktree Capital Management in January seized 444 S. Flower St., the tower recognizable to fans of the television series *L.A. Law*.

Brookfield Corp., downtown LA's biggest office landlord, defaulted on three towers, including one that it gave up to lenders. Brookfield's troubled offices represent "a very small percentage of our portfolio," Kerrie McHugh, a spokesperson for the Toronto-based company, said in a statement. She said Brookfield is still committed to downtown LA, and is putting the finishing touches on the Beaudry, a 785-unit apartment tower. Online preleasing began in April, and there's been a "strong uptick" in demand, McHugh said.

But the company's decision to stop making debt payments on some office properties shows the challenges facing landlords across the US. About 1.5 billion square feet of offices—or almost a quarter of US space—are at risk of becoming "zombie buildings," with low occupancy and diminishing financial viability, resulting in as much as $450 billion in lost value by 2030, according to a May report by Boston Consulting Group. Office values are expected to drop from pre-pandemic peaks by as much as 60% in San Francisco, 55% in LA and 50% in New York, Philadelphia and Washington, the firm said. Without new investment, more stores, restaurants and other downtown tenants will close. "If people don't act to bring other uses in, you're going to have a cycle of less and less activity," says Santiago Ferrer, a BCG managing director in downtown Los Angeles and co-author of the report.

One of the biggest downtown LA real estate boosters is New York-based Silverstein Properties, known for rebuilding the World Trade Center area after Sept. 11, 2001. It paid $430 million in September 2020 for LA's US Bank Tower and spent $60 million more to revamp the skyscraper. The goal: to create a hotel-like comfort experience that will lure workers from home offices. "The naysayers said that downtown Manhattan was finished as a business district, that nobody would work in tall office buildings ever again," Silverstein Chief Executive Officer Marty Burger said at the March ribbon-cutting. "We recognize the wonderful history and great potential in the downtown neighborhood" of LA.

Rudy Medina, US Bank's Southern California market president, cheered the new owners. "Our name's at the top," he said at the ceremony. "But I'm more excited to have Silverstein at the base of this building." Speaking later, he says the tower's underground parking lot has been filling up as more people return to their desks since the renovations. Medina knows because he drives to work, even though he lives three blocks away. He feels uncomfortable walking. "It's not very pleasant on the street," he says. —*John Gittelsohn*

THE BOTTOM LINE Downtowns across the US are still reeling from the pandemic and the rise of work from home, but things are worse in LA, a city already slow to embrace urban living.

The Raider Under Siege

● A short attack by Hindenburg Research puts Carl Icahn in an unfamiliar position: On the defensive

Carl Icahn doesn't care what people think.

He doesn't care, he says, that some hotshot is trash-talking him. He doesn't care that he, the legendary Carl Icahn, just got Carl Icahn-ed. That someone is doing to him what he's done to so many for so long: publicly accusing him of mismanaging his company and failing stockholders.

Icahn is on the line this Sunday afternoon from his waterfront mansion near Miami. "It's a tough game—a very tough game," he says. And a game that Icahn, 87, still seems to relish. He will concede one point: He didn't see this coming.

Almost three weeks have passed since Susan Gordon, Icahn's executive assistant and gatekeeper since the 1990s, called with the news. Short seller Hindenburg Research, run by 38-year-old Nate Anderson, had trained its sights on publicly traded Icahn Enterprises LP. In a report, it accused Icahn of costly missteps, if not outright malfeasance. Worse, it accused him of what, for Icahn, is a cardinal corporate sin: lousy performance. Hindenburg laid out a case that the stock was significantly overvalued relative to its underlying holdings, and that the company's high dividends—a big draw for investors—aren't sustainable.

"They caught him off guard, he lost money, and somebody outsmarted him"

Anderson's report has since blown an 11-figure hole in Icahn's net worth. And Icahn, who's spent

VICTOR J. BLUE/BLOOMBERG

a lifetime waging boardroom battles, has mostly waved off the uncomfortable questions. His company, in a statement, has called the Hindenburg report "self-serving." Hindenburg, as it discloses in its research, typically makes bets that will profit from the decline of the stocks it targets.

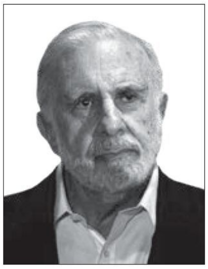
Beyond that, Icahn doesn't want to talk about it, at least publicly. In a 90-minute interview with Bloomberg News, he declined to address Hindenburg and its report directly. Yes, it's a headache, he says. But he insists he has other things on his mind. Among them is his own latest target, gene-sequencing company Illumina Inc. (Icahn has taken a position in the stock and is trying to get it to unwind an acquisition.) In his line of work, "you're going after some very powerful people, you're ruffling some big feathers," he says. "If you're going to be bothered by this, you shouldn't be in this business."

He's admitted to making at least one costly blunder. He lost $9 billion in recent years by betting—incorrectly—that markets would crash. Icahn, who's patched in his general counsel, says he screwed up by trying to time the markets. He says he's turned back to shaking up the companies he invests in. "I strayed from what I really do the best," he says. "Yeah, I could've been richer."

Icahn's maneuvers at Blockbuster, Marvel, RJR Nabisco, Texaco, TWA—the list goes on—have passed from history to near myth. Once, he was branded a corporate raider. Today, he and his ilk prefer a gentler-sounding term: activist investor. People who know Icahn say the reversal must sting. "He's never been humiliated like this," says Mark Stevens, an Icahn biographer and founder of consulting company MSCO. Icahn always loved tilting at the corporate establishment. "It was like breaking their golf clubs and pouring vinegar in their martinis," Stevens says, "and Hindenburg just did it to him."

Hindenburg declined to comment beyond its report. But it's chalked up Icahn's response thus far as a win. Shares in Icahn Enterprises are down about 50% since May 1. Before Hindenburg came along, Icahn was personally worth about $25 billion, according to the Bloomberg Billionaires Index. Today, he's worth $10 billion. Icahn, who declined to discuss his wealth, says he's received an "outpouring" of support from shareholders since Hindenburg's salvo.

Icahn Enterprises owns stakes in a variety of businesses in industries including energy, food and real estate, as well as its founder's not-so-secret weapons: the private investment funds he uses to wage his activist campaigns. Those funds buy into companies so Icahn can agitate for change, whether that's new management, a strategic rethink, job cuts—whatever it takes to push up the stock and make money for Carl Icahn. But the private funds were also where he was making those wagers on a market decline that cost him billions. The funds have been doing poorly for years. A dollar invested in them a decade ago would be worth less than 50¢ now, according to Bloomberg calculations.


● Icahn

The poor performance of those funds meant Icahn was losing the firepower needed to intimidate chief executive officers. So he doubled down, pouring in $3.6 billion of his wealth since the start of 2013. "He once told me, 'My money is my army, and I need my army around me,'" Stevens says. Icahn Enterprises in February disclosed that Icahn had pledged stock worth about $9.8 billion as collateral against margin loans. Those shares are worth $5.6 billion today. He's since upped his pledged shares. If the stock keeps falling, Icahn might have to repay the loans or risk having his shares liquidated. Such a margin call would put even more pressure on the stock.

In past regulatory filings, Icahn Enterprises said Icahn had plenty of other assets he could use to repay his loans and avoid a margin call. In its May filing, that language was conspicuously absent. Icahn declined to discuss his private funds or margin loans for this story.

Icahn Enterprises disclosed on May 10 that federal prosecutors for the Southern District of New York were looking into Hindenburg's allegations. The SDNY, as is its custom, declined to comment on an open inquiry. Stevens, the biographer, suspects the financial blow thus far is nothing next to the personal one. "They caught him off guard, he lost money, and somebody outsmarted him," Stevens says. "These are the three worst things that can happen to Carl Icahn."

Icahn Enterprises has said it will buy back as much as $500 million of its shares on the open market. It could be too late to crush Hindenburg. Activist short sellers tend to cover most of their positions quickly after successful campaigns.

Icahn says this fight isn't over yet. But no one can turn back time. "I really don't mind being old. I still love doing this," he says. "It reminds me of a line in *Gigi*," he adds, referring to the 1958 musical film. The words go, "The fountain of youth is dull as paint, Methuselah is my patron saint." —*Tom Maloney and Amanda L. Gordon, with Katherine Burton, Anna Jean Kaiser, Bailey Lipschultz and Liana Baker*

THE BOTTOM LINE Since Hindenburg Research released its report, shares in Icahn's public company have tumbled and his personal wealth has fallen by about $15 billion.

ECONOMICS

A Milestone For Women



But Hold the Champagne

Edited by
Cristina Lindblad

● A tight labor market draws more US women into the workforce, though the rising cost of living is a factor, too

Three years ago, a global pandemic triggered a so-called she-cession, when millions of women lost their jobs or left the workforce to care for loved ones. Now women are leading the recovery.

Companies have more women on their payrolls than ever, in part because of a steady rise in the share of what economists call prime working-age women (those age 25 to 54) who are employed or looking for work. The participation rate for that group climbed to a record high of 77.5% in April, surpassing a peak reached in 2000, according to government data. “We have gotten back to the best that women had ever done historically,” says labor economist Kathryn Anne Edwards.

The milestone marks a surprisingly fast reversal from the depths of the Covid-19 crisis, which had undone years of progress in women’s workforce participation. The bounce back is a result of factors including the rise of remote work and long-term trends such as more women getting college degrees. But more than anything, it’s driven by economic conditions: The US job market is strong, lifting participation for a variety of groups; and persistent inflation has pressured families to find ways to bring in more money.

“We’ve had unquestionably a very strong recovery,” says Beth Almeida, a labor economist and senior fellow at the Center for American Progress. “And when there are lots of jobs available, people step up to take them.”

Job openings, though declining, continue to outnumber unemployed workers 1.6 to 1, and the unemployment rate—now only 3.4%—matches its lowest level since the early 1950s. The disconnect between labor demand and supply has forced businesses to increase wages to attract and retain workers. By one measure, private-sector wages and salaries have climbed more than 10% in the past two years.

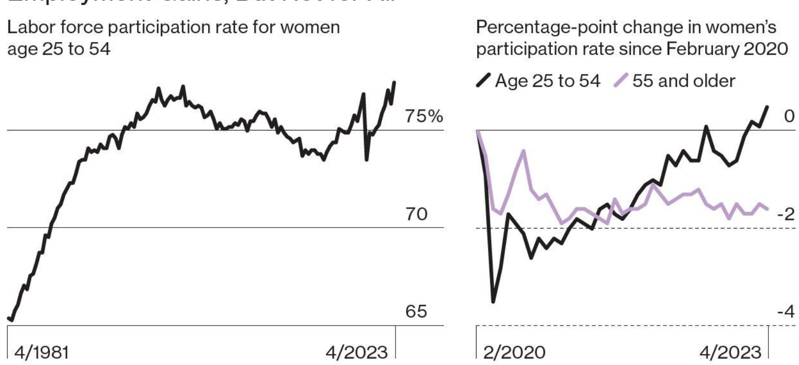
Tamara Atkinson, chief executive officer of Workforce Solutions Capital Area in Austin, says that while an abundance of jobs and better pay are the pull factors bringing more women into the workforce, there’s also the push factor of rising prices. “A second reason we’re seeing more women participating is, frankly, necessity,” she says.

Last year, US inflation surged to a 40-year high of 9.1%. Although the rate has subsided to 4.9% as of April, many Americans are struggling to keep up with higher costs for rent, groceries, gas and a range of other goods and services. Atkinson says her organization has seen a “marked increase” in the number of women requesting help gaining access to services that support basic needs such as food and transportation.

At the same time, many households are adjusting to the expiration of pandemic-era government aid, including the expanded child tax credit that led to many families receiving monthly payments and enhanced food benefits. “Many of those supports are now gone,” says Pamela Nabors, president and CEO of CareerSource Central Florida. “Out of necessity, many more women have had to reenter the job search process.”

The pandemic reshaped workplace policies and child-care arrangements in ways that are influencing women’s decisions to enter or stay in the workforce. Economists such as Lara Loewenstein at the Federal Reserve Bank of Cleveland have pointed to the rise of remote and hybrid work, as well as more flexibility, as likely contributors.

Employment Gains, But Not for All



DATA: BUREAU OF LABOR STATISTICS

Meanwhile, participation among women 55 and older has been stuck near pandemic-era lows; it’s a pattern that suggests older women continue to make sacrifices to help keep younger family members in the workforce. “If the day care was closed, granny became the nanny,” Almeida says. “That actually helped to foster labor force attachment for a lot of women in that prime working age, even as it pulled down labor force attachment among older women.”

Some shifts that predate the pandemic are also playing a role. Francine Blau, an economist at Cornell University, says lower fertility rates could be contributing to women’s greater workforce participation. Rising education levels among women also matter, she says, noting that ▶

ILLUSTRATION BY LEON EDLER

◀ women with college degrees are more likely to be in the labor force than women without college degrees, in part because they often are able to obtain higher-paying jobs that allow them to afford child care.

Although a strong labor market has allowed many women to pursue better job opportunities with higher pay and more attractive benefits, much of the hiring need now is in lower-paying sectors such as leisure and hospitality and home health services. "We've recovered from a decline, but that is not the same thing as thriving," says Edwards, the labor economist, who's also a Bloomberg Opinion contributor. Many of the jobs that are open "are not jobs that we would consider to be family-sustaining."

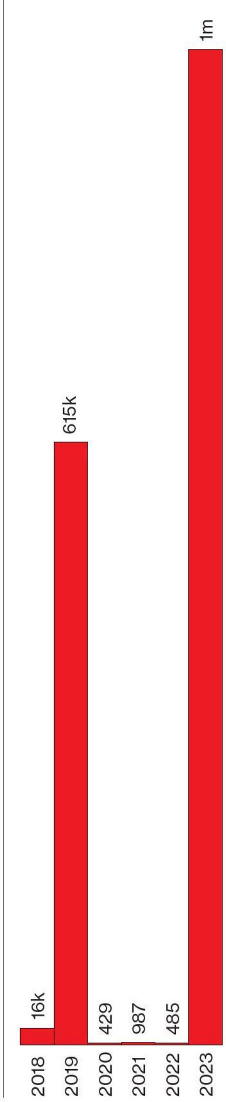
Although Edwards hails the record participation as "good news," it isn't clear the gains can be built upon or even maintained. "Without underlying change in work-family policy and childcare availability, I kind of doubt that we will see further increases," says Blau. *—Reade Pickert, Augusta Saraiva and Jonnelle Marte*

THE BOTTOM LINE The workforce participation rate for US women age 25 to 54 hit an all-time high in April, while the rate for those 55 and older has stagnated.

An Early Start to Fire Season

● Blazes in western Canada have crimped gas output and threaten to shut down oil sands production

▼ Hectares burned by wildfires in Alberta, as of May 23 of each year



ALBERTA WILDFIRE/REUTERS. DATA: GOVERNMENT OF ALBERTA

Abetted by an unseasonably hot spring, hundreds of wildfires have ignited across the Canadian province of Alberta, choking the skies with smoke and forcing the evacuation of about 40,000 people. The blazes in Canada's top energy-producing province have knocked out a fifth of the nation's natural gas output at times and are expected to put a dent in economic growth numbers for the month of May.

Alberta's tar sands, whose 3.25 million barrels of daily oil output make Canada the world's fourth-largest crude producer, have so far been spared, but officials are warning that conditions are ripe for fires to spring up anywhere, anytime. That possibility has companies, investors and the residents of the oil sands' unofficial capital of Fort McMurray—which almost burned to the ground seven years ago—on high alert.

With the infernos now raging into their third week with no end in sight, the ultimate economic impact is difficult to predict. The fires "continue to inflict significant damage," according to Rob Roach, deputy chief economist at ATB Financial. Roach's Edmonton-based company estimates the fires could shave 0.1% to 0.3% off Canada's real gross domestic product for May, depending on how much energy production is shut down and for how long.

The outages have contributed to Canadian energy producers' stocks lagging the broader Toronto Stock Exchange index in May. Chris MacCulloch, an oil analyst at Desjardins Capital Markets, estimated in a May 18 note that more than 2 billion cubic feet per day of gas has been curtailed—an amount equal to about three-quarters of the average daily use in Ontario, Canada's most populous province. MacCulloch's message to investors: "Pray for rain."

The nightmare scenario is that the blazes ravaging western Alberta spread east to the oil sands. Almost 2.7 million barrels of Alberta's daily oilsands production—just shy of Kuwait's output last year—are now in zones with "very high" or "extreme" wildfire danger, consultant Rystad Energy estimates.

That's a danger that Jody Butz, fire chief for the regional municipality of Wood Buffalo, encompassing Fort McMurray and the Athabasca oil sands, has been monitoring for weeks. Butz's department asked provincial officials to ban campfires and recreational vehicles from wild areas starting in late April, unusually early in the province's wildfire season, and they obliged.

At Fort McMurray, which has a population of about 70,000, preparations for another onslaught have been underway since a 2016 blaze that was Canada's costliest natural disaster, with C$3.7 billion ($2.7 billion) in insured losses.

The city helped homeowners reduce risks by removing trees close to dwellings. The fire department switched to smaller trucks that can connect and disconnect from hydrants faster, so squads can more easily chase after floating embers. Its staff also built closer relationships with the provincial

department that fights fires in the forests around Fort McMurray. Now any blaze nearby is met with an immediate response from both, and the jurisdictional and financial details are worked out later, according to Butz.

Officials are also counting on cooperation from a population with vivid memories of the 2016 catastrophe. Butz says Fort McMurray residents have been quick to comply with this year's fire-preventing restrictions and are even holding one another accountable on social media.

"We live in the middle of the boreal forest, and wildfire is our No. 1 hazard, so let's be prepared. That's a common message I see from people," he says.

No amount of preparation may be enough for what's shaping up to be a record year for fires. Alberta is only one-third of the way into its wildfire season that typically stretches from March through October, but already almost eight times as many hectares of land have burned as in all of the 2022 season. With more than 1 million hectares (2.5 million acres) up in smoke as of May 23, the province is on pace to surpass 1981's record of 1.36 million hectares.

Wildfires are one of the most noticeable signs of climate change, with extreme heat and protracted droughts creating ideal conditions for infernos. Unseasonably warm weather over the past month undoubtedly contributed to an earlier-than-normal start to "serious" fire activity, says Christie Tucker, a spokeswoman for Alberta Wildfire.

"What we don't see is the kind of hot, dry conditions that we saw at the end of April and early May," Tucker says. "That was really unusual." And the province is just now entering the most active period for blazes, when almost all the snow has melted but the vegetation is still brown and dry, providing ready kindling, Tucker says.

Fort McMurray resident John Hickey, who works as a mechanic repairing light-duty vehicles used in the oil sands, says smoke from the fires has been a topic in recent safety briefings at his shop. Crew leaders are telling workers to limit their exposure and take breaks if they're having breathing problems. They're also focusing on prevention, reminding staff not to smoke in certain areas of the job site, he says.



◀ A wildfire near Alberta's Shining Bank

"We live in the middle of the boreal forest, and wildfire is our No. 1 hazard, so let's be prepared"

Hickey, whose house burned to the ground in 2016, says he'd fill his truck's gas tank immediately if officials raised alerts. The rest of the town would take warnings seriously, too, he says. "If people heard things were getting serious, or to be prepared to evacuate, people would get ready," he says. *—Kevin Orland*

THE BOTTOM LINE Oil and gas supply interruptions caused by wildfires in Alberta could knock as much as 0.3% off Canada's economic growth in May.

Cybersecurity

Students Take On Hackers



A class at UC Berkeley helps defend NGOs against criminals online

In the decades he's spent combating human trafficking, Austin Shamlin has developed an expert's understanding of the gruesome business of kidnapping and enslaving people. He's seen horrors such as women held prisoner in brothels in the Dominican Republic, girls confined to cages in Haiti and predators at the Polish-Ukrainian border circling women and children fleeing the war. But the former cop knows less about shielding himself and the group he helms, an anti-trafficking nonprofit called the Traverse Project, from hackers.

After being quoted almost $300,000 for security software, Shamlin turned to an unexpected source for help: the University of California at Berkeley. This fall a dozen or so students will put together a cybersecurity strategy to counter growing threats from the criminal gangs his group pursues. "We have to assume these networks have similar resources to track us as we do them, if not better," Shamlin says. He expects the team, he says, "to come up with the craziest ideas to keep my people safe."

His pro bono cyberwarriors will be enrolled in a class called the Berkeley Citizen Clinic. The program, which helps nongovernmental organizations better protect themselves online,

May 29, 2023

Edited by Rebecca Penty and David Rocks

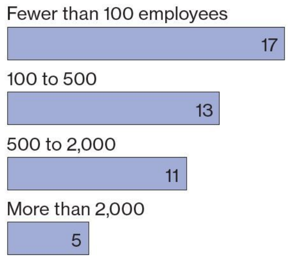
ILLUSTRATION BY NADIA HAFID; DATA: BARRACUDA. BASED ON CUSTOMER DATA

begins with seven weeks of training before students are assigned a client. They learn the power of backups, the importance of privacy controls in software, the operation of virtual private networks and how to assemble it all into a cybersecurity plan.

While Shamlin felt the quote he got was excessive, private firms typically charge at least $15,000 just for a consultation, according to Sarah Powazek, who runs the school's Public Interest Cybersecurity Program, which oversees the clinic. "It's not an investment I expect an average business, NGO or other resource-strained organization would consider, given the general lack of awareness of cybersecurity risks," Powazek says.

The clinic, which is the first of its kind in the country, has trained more than 125 students since it began in 2018. Each semester the school chooses a pair of clients—women's health clinics, refugee organizations, journalists investigating war crimes—and divides the students into two teams of about 15 members each. Their liability is limited, as they don't have access to their clients' systems and aren't permitted to implement any measures themselves. And clients never see the team and never learn their real names, which protects the students from any cybercrooks or prying governments that may have infiltrated an organization.

Average number of targeted phishing attacks per mailbox by size of company, 2021



Brian von Kraus, who participated two years ago, took the class while studying for a cybersecurity master's. The 44-year-old former Marine, who owned a physical security company that worked for high-risk NGOs in Africa, realized that hacking and espionage represent a growing threat to those organizations. He was paired with a group in El Salvador that aids victims of abuse from law enforcement, security forces and criminal gangs. Securing the personal information of people the NGO came into contact with was paramount, as they risk violence or imprisonment if their names are made public.

The solution was inexpensive: encrypted storage, secure email procedures with filters to guard against malicious software that might infect their systems and basic security principles, such as allowing only a few employees access to critical documents. "They knew how important it was to protect their data but just didn't have the cybertools to do it," von Kraus says. "We tried our best to provide free resources."

Eight other schools have created similar programs, and together they've assisted at least 120 organizations. Some clinics, like those at the Massachusetts Institute of Technology and Indiana University, focus on local governments or community schools and hospitals. Small organizations like these are three times more likely to be targeted by hackers than large companies, according to security company Barracuda Networks. And about 60% of such groups shut down within six months of an attack, the US National Cybersecurity Alliance reports.

Alissa Perrucci, counseling and administrative manager at San Francisco General Hospital's abortion clinic, took a closer look at her digital security after the US Supreme Court overturned *Roe v. Wade* last year and Texas outlawed helping anyone seek an abortion. "You look left, you look right, and you see your fellow citizen being able to tattletale on you," she says.

Perrucci, who's worked at the health clinic for 15 years, last fall asked the UC Berkeley students for privacy tips for staff and patients who've come from states where abortion services are illegal. She now shares the advice students gave her about period-tracking apps, which have varying policies on data encryption—creating a risk that information might be intercepted, revealing that someone is considering an abortion. And she's started using encrypted messaging to ease the minds of out-of-state patients. "It helps people who are really panicking trust the clinic," she says.

Students might not be everyone's first choice when it comes to cybersecurity, but the program is a "fantastic idea," says Mike Hamilton, founder of Critical Insight, a cybersecurity consultant for critical service sectors in Washington. "They're not configuring your switches, routers and firewalls but lining people up with a good standard of practice." There's a serious lack of funding for defending such organizations, and as the fast-growing industry struggles to find qualified workers, giving students hands-on experience while helping groups in need is a good way to train talent. Even the US Department of Defense and Homeland Security, Hamilton notes, is easing its requirements for cyber practitioners to deal with the skills shortage. "We're that tight on people," he says.

Rachael Cornejo, a clinic alum now working for Deloitte, says recent federal initiatives to bolster small-business cybersecurity with new rules requiring software developers to better protect their products are a step in the right direction. But it's unfair that NGOs and similar groups are forced to ask students for help in developing online defenses. "Cyber risk should be taken seriously," says Cornejo, who worked with a pro-choice organization for her project at the Berkeley clinic, "just like any other kind of economic risk. And I'd like to see a lot more public funding for it so that we don't have to do this on our own." —*Margi Murphy*

THE BOTTOM LINE It can be cost-prohibitive for charitable organizations to secure their systems against cyberattacks. Students working pro bono for nonprofits are stepping in to help.

C-Suite Lessons From Disruptive Cyberattacks

Executives who've led companies through incidents share tips on planning for and responding to a hack

Karim Toubba was a few months into his new job as chief executive officer of LastPass US LP, which allows customers to store and manage passwords, when he learned his company had been hacked. Two weeks later, in August 2022, he published a blog post saying that while the hackers had stolen some source code and proprietary technical information, there was no evidence customer data or encrypted password vaults were accessed.

Crisis averted—until the hackers returned, using information stolen in the earlier attack to obtain encrypted usernames and passwords, among other data. That development, which Toubba revealed in another blog post days before Christmas, prompted waves of criticism and a *Wired* story titled "Yes, It's Time to Ditch LastPass."

The ordeal placed Toubba in a growing fraternity of executives who've helmed companies through a cyberattack, a grinding experience that can drag on for months. Some customers abandoned LastPass after the attacks, but the company says it's now close to pre-incident numbers, which it declined to provide.

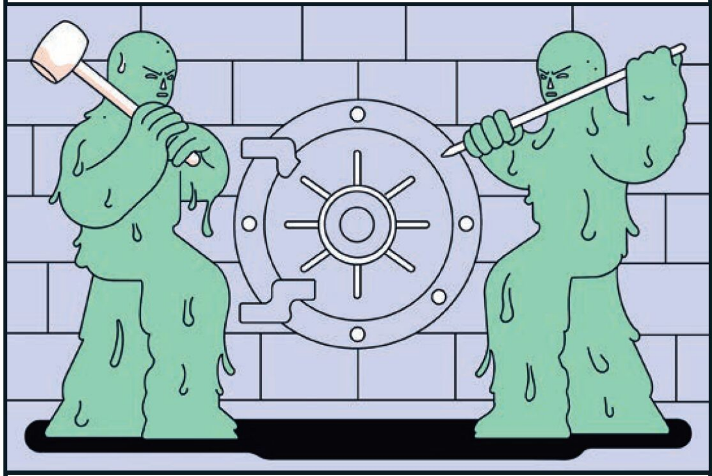
Toubba says his company got many things right in responding to the hack but could have done better in some areas, such as communication. His team continues to review the response, looking for ways to refine processes. "Improvement to those kinds of things is a never-ending game," Toubba says. His message to other CEOs who may find themselves in a similar position: You won't be judged for being hacked, but you will for how you respond.

Executives, security professionals and lawyers who have worked through hacks say that while every situation is different, there are measures organizations can take to respond to a crisis and help mitigate the damage. For starters, it's critical to have an incident response plan in place. It must account for worst-case scenarios and be rehearsed by relevant parties including the C-suite beforehand, or it's "truly just a piece of paper," says Erez Liebermann, a partner at Debevoise & Plimpton who helps clients prepare for and respond to breaches.

Organizations should also remain flexible. Executives may have decided to never pay a ransom demand, but what happens if the hackers call and threaten a customer or a family member? "As Mike Tyson said once, 'Everyone's got a plan until you get punched in the mouth,'" says Liebermann. "That's true in cyber."

Many big companies now have teams with cyber expertise on retainer so they don't have to go searching for help when they're hacked. That can include lawyers, forensic investigators, crisis communication experts and a ransomware negotiator. This helps to calm fears in the early days of an attack while establishing a structure and a path forward.

Communicating to customers, employees and the general public about the breach requires careful calibration: Providing too little information could prompt a backlash, while giving too much too soon can cause headaches if



it later ends up being inaccurate. The facts around hacks are hazy in the first few days and may change. Planning for potential messaging in the case of a breach can help.

"Forensic investigations are messy," says Kim Peretti, leader of Alston & Bird's global cybersecurity practice. There's pressure to provide details early on, when the full picture might not yet be known. "Your goal is to really create outward trust with customers or consumers that generally you have a structure, you know how to respond to this incident, even if you don't know how it's going to unfold," she says.

Leaders responding to an attack may also benefit from contacting the proper government department, such as the FBI or the Cybersecurity and Infrastructure Security Agency in the US. They may have knowledge of intrusion techniques—or information about the hackers themselves—that can inform the response and recovery and help prevent further attacks. Still, less than a quarter of cyber


Toubba

ILLUSTRATION BY NADIA HAFID; COURTESY LAST PASS

intrusions are reported to the US government, which limits authorities' ability to prevent further intrusions.

SolarWinds Corp., a Texas-based company that makes popular IT management software, has become synonymous with one of the most advanced hacks in recent memory. An investigation into the attack, which occurred in 2019 and 2020, found that Russian-state hackers had infiltrated as many as nine US government agencies and about 100 companies via SolarWinds and other methods.

The company had been prepared with an incident response plan it had tested. It also brought in outside experts, including cybersecurity firm CrowdStrike Holdings Inc. and the law firm DLA Piper, and worked with the government. Tim Brown, SolarWinds' chief information security officer (CISO), says all that "started us down the right path," but the plan couldn't have accounted for the scale of the attack. The hackers had installed malicious code in an update for SolarWinds software that allowed them to further infiltrate the systems of customers who uploaded it.

Brown says he learned about the attack on the morning of Dec. 12, 2020. Because the hack had been leaked to the press, the company only had a day before it became public, giving officials little time to investigate and prepare a statement, he says.

SolarWinds initially reported that fewer than 18,000 customers might have received the malicious update, a figure that stuck in news stories for some time. In the end, the investigation concluded that the hackers had infiltrated far fewer. "That would have been a very different outcome from a story perspective," Brown says. "But we didn't have the time to be able to understand everything at that point."

Nonetheless, the company's openness about the breach has paid off, as most of its customers have come back, he says. Brown says he fields questions from other CISOs wanting to glean knowledge from his experience. He says they ultimately want to know "what do I need to learn so that, you know, I don't get fired during one of these events?"

Jonathan Yaron, CEO of Kiteworks, a California-based company that makes software to share sensitive files securely and in compliance with regulations, has his own scars from a cyberattack. In December 2020 his company, then called Accellion, was the victim of a supply chain hack through flaws in 20-year-old software primarily used to transfer large files.

The company patched those flaws, but hackers returned and exploited two other vulnerabilities in the software. Ultimately, fewer than 100 customers were hacked, with about 25 suffering significant data theft, according to the company. The hackers used the data to extort victims.

Accellion settled a class-action suit for $8.1 million without admitting wrongdoing. Similarly, SolarWinds settled a class action for $26 million without admitting wrongdoing. LastPass is also facing legal claims; the company says it is unable to comment on pending litigation.

One thing Yaron says he learned: Don't put up with customers who won't patch software. Prior to the attack, he says, Accellion offered incentives for customers to upgrade from the old software and then penalized them for not doing so. But some refused to budge. Kiteworks no longer offers that product. It now asks customers to patch software flaws quickly and doesn't want their business if they don't do so within a year. "You either upgrade or go someplace else," Yaron says. —*Andrew Martin*

THE BOTTOM LINE The fraternity of executives whose companies have been the victims of cyberbreaches is growing—and so is the know-how about preparing for the situations and taking charge when they occur.

Thwarting Ransomware Attempts With Alerts

A US government effort to warn organizations of imminent attacks is helping to block bad actors at home and abroad

Jamil Farshchi was waiting for an Uber in Midtown Manhattan one afternoon in late March when he got a flurry of text messages. One was from the FBI, asking him to call the US government's Cybersecurity and Infrastructure Security Agency. Another was from a CISA staffer named Klint Walker, saying he needed to speak with Farshchi.

It was clear to Farshchi that there was an emergency. The chief information security officer at Atlanta-based Equifax Inc., a company that issues credit reports on hundreds of millions of people, rang Walker at once. ▶

◀ Farshchi says he learned from Walker, a CISA regional adviser covering Georgia, that a well-known ransomware group was planning an imminent attack against Equifax, potentially putting at risk company operations and the finances of its clients. The attackers might already have made their move, Walker said. "It was obviously an all hands on deck—everything was activated," says Farshchi, describing the company's response. "A ransomware attack just utterly cripples organizations."

It had the potential to be a nightmare for Equifax, which had already suffered one of the most significant hacks in US history in 2017, when data belonging to 143 million people was leaked, including hundreds of thousands of credit card numbers. Almost three years later, the US charged four members of China's armed forces with the hack.

Farshchi was grateful that on this occasion CISA was able to give the company some warning. Within 10 minutes of the conversation, Walker emailed Farshchi detailed information, including that the attackers were planning multiple phishing emails to key people in the organization. "It was a unique form of phishing, which was crafty, because it would have allowed them to bypass the initial controls that organizations put in place to stop that stuff," Farshchi says.

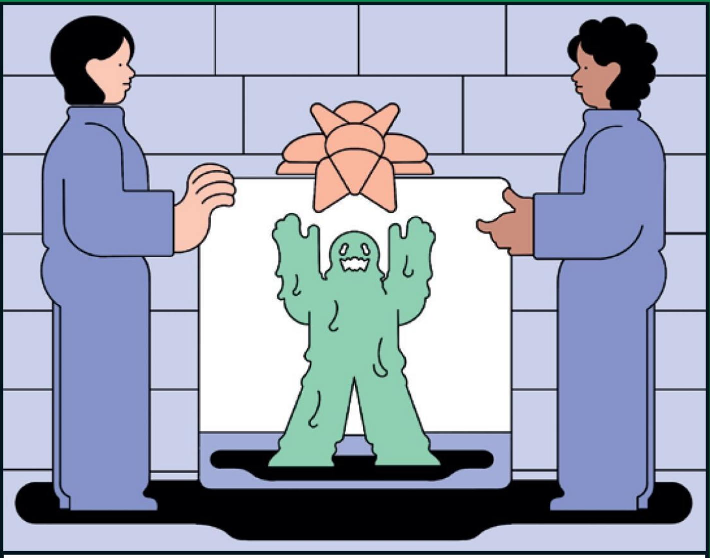
About five days later, Equifax saw the malicious emails come in. "The identical thing that we were warned about was delivered," Farshchi says. "And obviously we had that massive head start, and so it literally had no effect at all. The malware was never even delivered."

The notification allowed the company to take a close look at its controls and ensure it was doing everything possible to defend against an attack, Farshchi says. "We were able to sort of shore up, to take the belt-and-suspenders approach to protecting ourselves in this case," he says.

The Equifax warning is one of about 225 notifications about planned ransomware attacks that CISA has issued since the beginning of the year through its Pre-Ransomware Notification Initiative. With the new effort, it alerts an organization about a viable, imminent plot to lock up its systems and hold customer data hostage. Many of those alerted so far have been schools and hospitals. Through a related CISA program that began on Jan. 30, the Ransomware Vulnerability Warning Pilot, the agency also identifies risks in organizations' systems and notifies them about those vulnerabilities.

To thwart a planned attack, a targeted organization can wipe or disconnect an infected computer, block communications with the ransomware group, reset compromised credentials or take other action.

"This entire program is predicated on one key fact, which is there is a window of opportunity between when an intrusion occurs—when the bad actor breaks into a network—and when they actually cause harm," says



Eric Goldstein, CISA's executive assistant director for cybersecurity. The window can last days or hours, so CISA uses multiple methods to notify potential victims, including emails, Slack messages and texts.

Goldstein says much of the information is volunteered by cybersecurity researchers and companies that track ransomware groups, testifying to the benefit of closer relations between CISA and groups that in some cases had previously been wary of government outreach efforts. When the outside experts notice sudden attempts by a ransomware group's infrastructure to connect to US-based IP addresses, they give CISA technical information, the name of the targeted organization and what specific aspect of the network has been compromised, says Goldstein.

CISA's warnings go beyond the US. Since the program got going, the agency has alerted organizations in 18 countries to 52 planned ransomware attacks. It has also received 33 notifications from 10 partner countries of impending attacks on US organizations. In May, the Canadian Centre for Cyber Security discovered and passed on to CISA 229 US IP addresses that were subject to the early stages of an attack, alongside 55 IP addresses in Canada, according to Rajiv Gupta, associate head of the CCCS.

The UK, which started its own ransomware early-warning service in May 2021, has been able to prevent attacks at home thanks to information passed on by CISA, says Eleanor Fairford, deputy director for incident management at the UK's National Cyber Security Centre.

Now CISA wants to scale up. "We know that from the point of view of an individually impacted organization, it's a game changer," says Goldstein. —*Katrina Manson*

THE BOTTOM LINE By getting a heads-up that a criminal group is plotting a ransomware attack, a targeted organization can better guard its systems. In the US, schools and hospitals are benefiting from a new CISA warning effort.

ILLUSTRATION BY NADIA HAFID



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Remember when Yeezy made Adidas the hottest shoe company in the world? How the biggest collab since Nike met Jordan went so wrong

By Kim Bhasin and Tim Loh *Photograph by Jessica Pettway*



Tripped Up

MILLIONS OF PAIRS OF UNSOLD Yeezys are sitting in purgatory, stacked in warehouses from the US to China. Sneakers—some looking like cozy turtleneck sweaters for your feet, others like they've grown teeth on their soles or solidified into pillowy clouds—that once would've sold out in limited-edition drops, often flipped for much more on StockX and Goat, now await their fate seven months after one of the biggest corporate meltdowns in history. Their owner, Adidas AG, couldn't decide what to do with all the tarnished merchandise created by the man who was, until recently, its most prominent business partner: Kanye West, who now goes by Ye. The total value of these sneakers: about $1.3 billion.

At Adidas headquarters in the medieval town of Herzogenaurach, Germany, senior executives have spent months mulling their Yeezy inventory dilemma. They've considered unstitching the Yeezy logo off each sneaker, one by one, but that's too laborious. They contemplated donating the goods to victims in disaster-struck countries such as Turkey and Syria, but that could trigger illicit trafficking. Burning them in the world's largest hypebeast bonfire would be an environmental calamity, and chopping them into plastic bits to be reborn as turf is overly complicated and hardly satisfying. Management finally decided it would begin selling the sneakers while giving a portion of the proceeds to charities. The first of the stranded footwear will be available for purchase at the end of May.

Over the last few years, one of Germany's largest companies became dangerously reliant on a single person to meet its towering financial goals. Then, in October, Ye capped off a series of unhinged outbursts with a torrent of antisemitic rants, leaving Adidas little choice but to end its multibillion-dollar arrangement with Yeezy and eliminating nearly half the company's earnings in an instant. By the time the partnership dissolved, the shoes accounted for 8% of Adidas's total revenue and 40% of its profit, according to estimates from Morgan Stanley.

Even worse, the collapse exposed deep-rooted problems at Adidas that Yeezy's success had long camouflaged. Ye should never have generated such a big chunk of earnings, and he didn't—until the bottom fell out elsewhere in the company. Product cycles went out of whack as Adidas flooded the market with anything that showed promise, often resorting to its vintage standbys. Collaborations with Beyoncé and Prada fell short. Leadership grossly miscalculated its pandemic strategy, then lost footing in two of its most vital overseas markets.

Now Adidas is faced with life after Yeezy. Last fall its board of supervisors decided to cough up $17 million to push out Chief Executive Officer Kasper Rorsted more than three years before his contract was set to expire. Rather than gamble on an up-and-coming visionary type for a new CEO, the board went with a far more sensible bet: Bjorn Gulden, the successful head of crosstown rival Puma.

In February, after only a few weeks acquainting himself with Adidas's books, Gulden issued one of the bleakest financial forecasts in the company's history. Adidas expects to lose more than $700 million this year, its first operating loss since the early 1990s. Before the company can even think about profitable growth, it needs to resort to huge discounts to unload more than $6 billion of unsold sneakers and apparel, largely the result of supply chain snarls and overestimated demand, an industry-wide problem that many of its competitors have already resolved. "Adidas needs a complete overhaul after the Yeezy disaster," says Janne Werning, head of ESG capital markets and stewardship at German shareholder Union Investment. "After these lost years, Gulden has a lot of work ahead of him."

One day in March, three months into the job, Gulden gathered a crowd of journalists and TV crews to introduce himself. The tall, easygoing Norwegian, a master of managing expectations, was beginning the brand rehabilitation process. Adidas, he said, is more than just a collection of crises. It's the world's No. 2 sneaker company, with more than $24 billion in annual sales, a brand with more history than Nike Inc. and resources that would make any smaller label jealous. He vowed to speed up decision-making so Adidas could jump onto trends while they're hot. "We will again be the best sports brand," he declared, at one point juggling a soccer ball with his feet, before tossing it into the crowd.

But even Gulden had no easy answers to questions about Yeezy. He praised the partnership from the point of view of product design, distribution and marketing. "It was a fantastic combination," he said. "Unfortunately, it's now lost, and it's something that we need then to replace with many, many, many pieces."

ADIDAS AND NIKE MIGHT BE ETERNAL rivals, but the battle between Adidas and Puma is personal. Adolf "Adi" Dassler and his brother, Rudolf, both members of the Nazi Party, ran a shoemaking business together until they had a bitter falling out during World War II, when Rudolf fought in Poland while Adi stayed home to run their factory. Rudolf started his own company, Puma, in 1948, and Adi started Adidas a year later. The ensuing rupture split the family in two, along with the surrounding town of Herzogenaurach—Herzo, as locals call it. Residents got sucked into the sibling rivalry, with thousands working for one brother or the other.

For decades after the war, the Dasslers dominated sports from basketball and track to the Olympics and the World Cup, but their hostilities over market share and bragging rights were so intense that by the 1970s they failed to appreciate the rise of an upstart in Oregon. Adi Dassler never saw his company dethroned. He died in 1978—four years after his brother—of heart failure, just before Adidas made a decision that would forever haunt it.

In 1984, Adidas and Nike looked into signing a college basketball star named

"Adidas needs a complete overhaul after the Yeezy disaster"

Michael Jordan to a shoe deal before he'd even stepped onto an NBA court. Sneaker sponsorships were nothing new: Adi Dassler famously persuaded Jesse Owens to wear his spikes at the 1936 Berlin Olympics. The Dasslers had even pioneered the sports-inspired lifestyle category—Puma churning out hits like the Walt "Clyde" Frazier basketball shoe and Adidas later becoming the first brand to dive into street culture when it paid hip-hop group Run-DMC to wear its tracksuits and hawk the brand in the song *My Adidas* in the mid-1980s.

Two marketing hotshots at Nike, Rob "Rolling Thunder" Strasser and Peter Moore, offered Jordan an unprecedented endorsement deal flush with royalties, a high salary and a personal shoe brand called Air Jordan. Even though Jordan was a die-hard Adidas fan, Adidas didn't want to pay that kind of money. The year Air Jordans made their debut, Nike made $126 million in revenue from the line, according to Jordan's agent. By the end of the '80s, Adidas had fallen to third place in the industry, trailing Nike and Reebok.

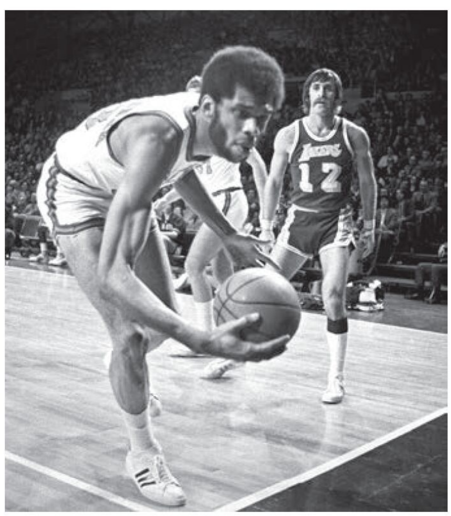
The Nike-Jordan partnership scrambled the dynamics of the sneaker industry. Before Adidas passed on Jordan, about 75% of pro basketball players wore the stripes on the court. Nike quickly took near-total control of basketball; because of the sport's cultural significance in the US, the world's single biggest sports market, this shift was seismic. For decades, a common gripe from Adidas employees in the US was that their leaders in Germany failed to appreciate American culture.

It wasn't until the 1990s, after the Dasslers lost control of the company and Strasser and Moore defected to Adidas, that it was ready to fight back. When Moore flew to Adidas HQ, he marveled at its archive of products, including the three-striped white boots worn by boxing legend Muhammad Ali. "This guy Adi was the father of 90% of the industry," Moore recalled, according to *Portland Monthly*. His other thought: How had Adidas managed to "f--- it up so bad?"

Strasser and Moore introduced a new line of no-frills athletic sneakers and apparel, channeling the brand's performance origins. But Strasser died







Run DMC in Adidas-branded track suits in 1986; Adi Dassler in 1973; Kareem Abdul-Jabbar playing for the Milwaukee Bucks in 1973

suddenly of heart failure at age 46. Moore briefly took over as head of Adidas's US operations, while the wealthy French businessman Robert Louis-Dreyfus became CEO and took the company public. Following him was German executive Herbert Hainer, who bought Reebok for about $3.8 billion in a gambit to compete with Nike in the US. Among the many employees Moore groomed at Adidas was a lanky swimmer named Eric Liedtke. After working at the Adidas office in Portland, Oregon, he was shipped off to Germany where he oversaw the development of Boost, the spongey cushioning technology that Adidas developed with German chemicals maker BASF. At last, Adidas had an answer to Nike's decades-old midsole platform Air and it revolutionized Adidas's line of running shoes. In 2014, Liedtke became the company's first-ever American head of global brands. "Herbert Hainer basically came to me and said, 'Hey Eric, two things: You've got to reset the brand. Do what it takes, and don't ask me for permission, ask for advice,'" Liedtke recalls. He set out to finally create Adidas's Jordan.

KANYE WEST HAD ALWAYS LOVED Nike, not Adidas. In late 2006, less than a year after Mark Parker was named CEO of Nike, he invited West to perform at Manhattan's Gotham Hall in front of a celebrity crowd that included director Spike Lee and New York Knicks legend Patrick Ewing. They were there to celebrate the 25th anniversary of Nike's Air Force 1s, with 1,000 pairs on display throughout the venue. West would later be photographed on a private jet with Parker, sketching shoe ideas for Nike.

Over the next few years, as the rapper released several albums, he and Nike developed the Air Yeezy together. The shoe came out in 2009, followed by a second iteration three years later. They're still some of the most coveted sneakers of all time—today a pair of Nike Air Yeezy 2 Red October high-tops, which look like 3D-printed sneakers made of plastic mesh strawberries, can sell for $15,000 or more. The relationship soured when West demanded royalties from every pair sold. "Nike told me, 'We can't give you royalties, because you're not a professional athlete,'" West said after they cut ties. "I told them, 'I go to the Garden and play one-on-no-one. I'm a performance athlete.'"

West met quietly with Adidas executives in New York during a rehearsal session for Jimmy Fallon's talk show. West soon landed a groundbreaking deal: autonomy over his own design studio, promotional fees and a cut of sales. Hainer gave West a level of top-dog ▶

PREVIOUS SPREAD: PROP STYLIST: STEPHANIE YEH. RUN DMC: EBET ROBERTS/PREMIUM ARCHIVE/GETTY IMAGES. DASSLER: BRAUNER/ULLSTEIN BILD/GETTY IMAGES. ABDUL-JABBAR: PAUL SHANE/AP PHOTO

◀ access the rapper craved. The next spring, West married Kim Kardashian at a Renaissance-era fortress in Tuscany. Andrea Bocelli sang as the bride walked down the aisle.

Nike executives had cautioned their Adidas counterparts in Portland that West was difficult to work with. West didn't exactly try to hide it either. "Ain't no corporation that can take me away from my voice and I'm going to scream at the top of my motherf---ing mountain as loud as I want," he told the crowd at Madison Square Garden while touring in 2013. But those warnings were overlooked as it became clear to Adidas that they'd hitched themselves to a potentially transformative figure. Right after Adidas's first Yeezy shoe dropped, West also began wearing the German company's Ultraboosts; suddenly they were selling out. The Yeezy Boost 350, which sold out in 12 minutes the day it launched, was named Shoe of the Year by *Footwear News* in 2015.

Adidas and West signed a new 10-year agreement in 2016 and outlined plans to expand Yeezy styles, open retail stores and enter new markets. West didn't work for Adidas; Yeezy was an independent business that would earn money off every shoe sold. The artist, having his own LA-based staff of designers and marketers, was free to take on other projects and hold his own fashion shows. His employees would work closely with Adidas's new homegrown Yeezy team in Portland.

Adidas was already riding high on its hottest streak in decades, with Boost powering its NMD R1 running sneakers, and supermodel Gisele Bündchen appearing completely nude, aside from Stan Smiths and socks, in *Vogue Paris*,



Liedtke, then-Adidas brand president, with Ye at Milk Studios in Hollywood in 2016

driving demand for the tennis shoes. Pharrell Williams, meanwhile, had pumped fresh life into the resurgent line of Superstar basketball kicks. Adidas sales surged by more than a third to about $21 billion from 2013 to 2016.

Some investors, however, complained that the company was spending too much in its quest for cool. If Adidas couldn't be as big as Nike, it should at least be as profitable, they argued. So when Adidas's supervisory board went looking for a new CEO to replace Hainer, it passed on Liedtke and landed on a wildcard in Kasper Rorsted, a Danish number cruncher who'd done time at Oracle, Hewlett-Packard and Henkel, a German soapmaker. Rorsted immediately got rid of distracting divisions at Adidas and built up its e-commerce operations to cut out middleman retailers.

At first, he seemed to be on to something. Adidas's profits and share price rose, and Rorsted was named Germany's top CEO in a German business magazine. But to anyone who knew where to look, cracks were emerging as shoppers lost interest in the same old stuff. Adidas inundated stores with Stan Smiths, then had to pull back distribution when it became apparent they'd overloaded the market. Suddenly there weren't enough buzz-generating products coming out. Except Yeezys.

EVER SINCE THE JORDAN BRAND began its ascent into a $5 billion-a-year business, sneaker collaborations have become standard for athletic-wear companies. Stars power multimillion-dollar product lines—like Stephen Curry at Under Armour Inc. and LeBron James at Nike—and forge personal relationships with executives. When James broke the NBA points record in Los Angeles this February, Nike's billionaire founder Phil Knight was courtside. The two embraced after the game: "I'm so happy you were here, brother," James told him. "Oh, I wouldn't have missed it," Knight said with a smile.

West and Rorsted never had that intimacy. The CEO never claimed to be a sneaker expert and said he didn't like to interfere with the design process. Yet few goods have ever upended the industry the way Yeezys did, and Rorsted had lucked into a game-changing product. Regular shoppers were often attracted to the knit styles and comfy cushioning, while professional resellers saw their chance to make some cash off a red-hot commodity. Limited releases sold out in minutes, and the more unattainable the shoes got, the more people wanted them. That, coupled with West's ability to draw the world's attention with every social media post, was a billion-dollar formula.

In 2017, Yeezy's first full year with Adidas after the contract extension, net sales reached $300 million, and the company broke $1 billion in annual revenue after just three years, according to a cash-flow document prepared by UBS Group and reviewed by *Bloomberg Businessweek*. But as revenue spiked, West grew more erratic. Adidas executives got their first public scare in May

Yeezys Flipped on the Secondary Market



$1.8m

Prototype of Nike Air Yeezys



$15k

Air Yeezy 2 Red October



$3,400

Adidas Yeezy Boost 350 Pirate Black



$1,700

Yeezy Boost 950M duckboots

LIEDTKE AND WEST: JONATHAN LEIBSON/GETTY IMAGES. MSG: KEVIN MAZUR/GETTY IMAGES. YEEZY PROTOTYPE: MIGUEL CANDELA/ANADOLU AGENCY/GETTY IMAGES



A Yeezy fashion show at Madison Square Garden in 2016

2018, when he barged into celebrity gossip site *TMZ*'s newsroom and ranted about how chattel slavery was a choice for the enslaved. Amid the following outcry, Adidas's shares plunged. But Rorsted, appearing on Bloomberg Television to discuss the company's disappointing earnings, quashed any speculation about dropping his partner. "He's been a fantastic creator," he said, "and that's where I'm going to leave it."

Adidas's Yeezy team wasn't surprised by management's reaction. Adidas employees and advisers, along with sneaker industry insiders, describe years of frustration with West's behavior and management's reluctance to do anything about it. Staff would later write an anonymous letter to senior executives describing his totalitarian impulses and inappropriate behavior, prompting outrage from some investors who demanded to know how long such antics had been tolerated. Adidas conducted an investigation, acknowledging that Ye created a "challenging" environment, and said it would put measures in place to prevent such unacceptable work conditions in the future. (Ye couldn't be reached by phone for comment.)

Not long after the *TMZ* incident, West shocked Adidas again when he decided to move from Los Angeles to Cody, a small town in Wyoming, after recording an album there. He demanded that his staff and some of the Adidas Yeezy team relocate with him. Adidas began building a new design lab in a former pharmaceutical production facility there, trucking in millions of dollars worth of machinery needed to make product samples. After monthslong delays and pauses, the facility shut down entirely when West put his ranch up for sale and moved back to LA in 2021.

While Rorsted publicly praised West, behind the scenes their relationship had deteriorated. From the beginning, West demanded to do things his way. Yeezy was given a level of independence no other label within Adidas had ever experienced. But Rorsted refused to roll out the red carpet for West, a source of friction since the rapper only wanted to deal with Adidas's top boss, not lower-level managers, according to people familiar with the matter. Rorsted liked having as much of the business as possible under his control, according to former colleagues, and West was uncontrollable.

Back in Germany, Rorsted had bigger problems. For all of West's idiosyncrasies, at least his business line was driving profits. When the pandemic began in 2020, sneakerheads flocked to Adidas's website, gobbling up every Yeezy release. But outside that bubble, nothing was going smoothly. Rorsted initially refused to pay rent on temporarily shuttered stores in Germany, causing consumers and politicians to rage against the company. Weeks later, Adidas took out $3.3 billion in aid from the German government and banks, forcing it to halt dividend payments.

Then that summer, after the murder of George Floyd in Minneapolis, Rorsted's employees in Oregon held daily protests against their employer. Adidas staff called for change, saying officials had created a toxic environment for people of color. Workers like Julia Bond sent letters to the company's top executives and put together a 32-page slide deck to pressure leadership. "As one of the few Black women at this brand, my ask is still the same," the designer wrote. "I need this brand not only to admonish racism, but to actively be anti-racist." Rorsted fired his head of HR, filling the position himself for several months. "Particularly in America, we have not made the progress with the Black community and we're taking that very serious," he said after a listening tour.

The following March, Rorsted introduced a five-year strategy, which called for investing more than $1 billion in a "digital transformation," doubling e-commerce sales and achieving reliably fast growth in China. That intricately crafted plan began to unravel two weeks later when Chinese consumers began boycotting Western brands that had taken a stance against cotton sourced from the Xinjiang region because of concerns about forced labor of Uyghurs, a minority ethnic group. Chinese sportswear brands started capitalizing on a "Buy China" movement, chipping away at foreign companies' market share. Before the pandemic, Adidas could rely on as much as 30% annual revenue growth in China. In 2022, China revenue plunged 36%.

Then came the Ukraine invasion, which forced Rorsted to pull out of Russia, exacerbating Adidas's inventory pileup and cutting off an entire region where Adidas had historically clobbered Nike. Also around this time, Rorsted unloaded Reebok for about $2.5 billion, a third less than Adidas had paid 15 years earlier. By August, Adidas had slashed its financial targets and announced that Rorsted would step down at some point in 2023 to allow for a "restart." West gloated on Instagram with a fake *New York Times* front page reading, "Kasper Rorsted Dead at 60."

LAST SEPTEMBER, WEST, WHO BY now was divorced and had legally changed his name to Ye, picked up his phone in the middle of the night and called a Bloomberg reporter to tell the world he was done with "corporate America." That included Adidas, which had netted him nearly $200 million in royalties the previous year and was the cornerstone of his billionaire ambitions. He accused it of stealing his designs, and he was willing to throw it all away to strike out on his own, no longer beholden to the whims of bosses and boardrooms. Documents prepared by Bank of America Corp. and reviewed by *Businessweek* estimated Yeezy's value at as much as $3 billion in 2020.

On that late-night call, Ye said his ▶

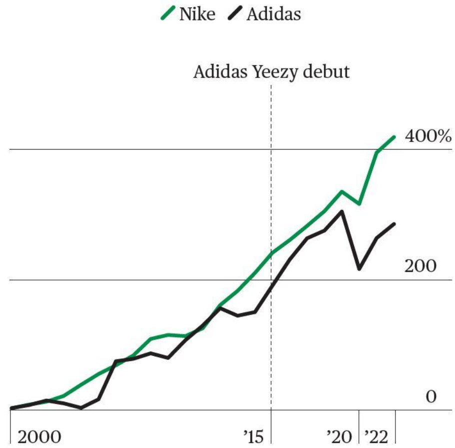
◀ business partners and the public treated him like he was crazy. "Do I sound crazy?" he asked. He answered questions about his future calmly, taking several seconds to think before replying, unlike his ravings at *TMZ*. He dismissed Adidas as a mere logistics provider, meant for menial work, not creativity. "Adidas should simply be a manufacturing and distribution partner," Ye said. "They shouldn't be acting like they're cool." Even so, he said, he wanted to find a way for both parties to keep making money, perhaps "co-parent"-ing Yeezys—he'd independently keep creating them, and Adidas could sell them. (The suggestion for a cordial new chapter turned out to be a bit more complicated: a few days earlier he had posted on Instagram that Adidas had offered him a billion-dollar buyout and he'd rejected it. Adidas declined to confirm or deny this to *Businessweek*.)

Around that time, some Adidas executives did actually meet with Ye in private. As shown in a heavily edited video that Ye's team released, he told two executives they were mistreating the guy who, in his mind, made them billions. He brought with him Liedtke, the former Adidas brand chief who now had his own clothing brand, and Shervin Pishevar, a Silicon Valley investor who resurfaced as vice chairman of Yeezy after being accused of sexual misconduct years earlier (Pishevar denied the allegations). At one point, Liedtke, who appeared to be acting as a mediator, offered words that were sympathetic to Ye's claims that Adidas had copied his designs. Even one of the Adidas executives acknowledged they could improve their cooperation with Ye. But Ye didn't appear to be looking for reconciliation. He took out his phone and played pornography for one of the confused Adidas executives. "Your worst nightmare is not me playing the porn," he said.

Adidas's worst nightmare actually happened in October, after Ye donned a White Lives Matter shirt at a Yeezy

The Yeezy Boost

Change in revenue since 2000



DATA: COMPILED BY BLOOMBERG

fashion show in Paris. A few days later, Adidas issued a statement that it was putting the collaboration under review. Then Ye began making those antisemitic screeds, at one point tweeting that he would go "death con 3 On JEWISH PEOPLE." Instagram and Twitter suspended him. Adidas and Yeezy employees were told to keep working as if nothing unusual was happening, according to a person familiar with the situation. New Yeezy products kept hitting the market, with RBC Capital Markets LLC estimating that Adidas generated more than $100 million of Yeezy sales in the first few weeks of October.

Ye continued behaving as if he were untouchable. "I can say antisemitic shit and Adidas can't drop me," Ye boasted, dredging up memories of the company's historical Nazi ties. Whatever line there was for misconduct, Ye didn't appear to cross it. (For Adidas, anyway: His other corporate partners—Gap Inc., the fashion house Balenciaga, Hollywood talent agency Creative Artists Agency—all announced they were ending their various business relationships with Ye.)

By late October, Adidas faced mounting pressure from consumers, investors and human-rights groups to terminate the Yeezy partnership. Before it did, though, Adidas put on its annual Global Week of Inclusion, a four-day interoffice event billed internally as a step toward "creating a culture of true belonging." Bosses encouraged employees to attend or watch online the talks and panels set up to support equality across the organization. The head of diversity applauded the week as a triumph; many employees disagreed, and some refused to attend at all. They viewed it as hypocritical grandstanding when their biggest business partner was spewing hate speech. Some employees were so disgusted they spoke out publicly. "Until Adidas takes a stand," an Adidas marketing executive posted on LinkedIn, "I will not stand with Adidas."

Rorsted, his senior executives and the supervisory board weighed what to do, waiting for the opinions of two US law firms before acting, according to a person familiar with the matter. On Oct. 25, a month and a half after Ye had declared his intention to sever ties with bosses and boardrooms, Rorsted and top management held a two-minute call and decided to end Adidas's relationship with Yeezy, terminating the entire business line, effective immediately.

THE NEXT DAY, A MILE SOUTH OF Adidas's campus, Puma reported the highest quarterly sales and profit in that company's 74-year history. Even though its CEO, Gulden, was taking something of a victory lap, Adidas was on his mind. For weeks, Gulden had been fielding calls from Adidas headhunters, shareholders and board members asking if he'd be up for replacing Rorsted. His Puma contract would expire at the end of 2022, and he hadn't negotiated an extension. At 57 he still had another act in him.

When Gulden had arrived at Puma in 2013, the brand was facing an identity crisis. It had pushed too hard into fashion and, after two consecutive years of falling sneaker sales, was cutting jobs, closing stores and scaling back products. He believed the company needed to

"Adidas should simply be a manufacturing and distribution partner. They shouldn't be acting like they're cool"

jump more quickly on industry trends and return to its athletic roots. Within months, he signed Puma's biggest sponsorship deal, with English soccer club Arsenal FC, and soon kicked off a splashy advertising campaign starring Jamaican sprinting legend Usain Bolt. As Puma shoe sales started taking off, Gulden reminded investors to be patient. "You cannot turn a company around in 12 months," he said in early 2015, almost two years into his tenure.

By 2022, Puma's revenue was soaring, nearly tripling under Gulden's watch, with half of that growth coming during the pandemic. His team had introduced performance running shoes and a new basketball line in the US, along with signing celebrity partnership deals. Rihanna collaborated on sneakers and apparel, while Jay-Z became a creative director and flew around in Puma's private jet. Unlike Adidas, Puma was stronger than ever.

On that October earnings call, Gulden was asked repeatedly by reporters if he was open to taking the top Adidas job. He didn't say no. "I don't have any offer from them," he said cryptically, directing any further questions to his competitor. A week later, news poured out of Herzogenaurach: Gulden was leaving Puma and taking over as CEO of Adidas. Adidas's shares shot up more than 20%.

When Gulden issued his dismal 2023 earnings forecast in February, even veteran analysts and investors were rattled. The company's stock plunged on the news, wiping $3 billion off its market valuation. "Horrible," said Volker Bosse, an analyst at Baader Bank. The expected cuts were "much deeper than anybody projected." But investors already seemed to be buying Gulden's narrative—the blow of a potential $1.3 billion Yeezy write-off was softened by reminders of Gulden's sterling track record at Puma. Several even suggested loading up on Adidas stock while it was cheap. "One of Mr. Gulden's main strengths is his leadership and ability to build a fast, collaborative 'winning' culture," Berenberg analysts recently wrote.

But the Yeezy-sized hole in Adidas's product lineup keeps getting bigger.


ADIDAS

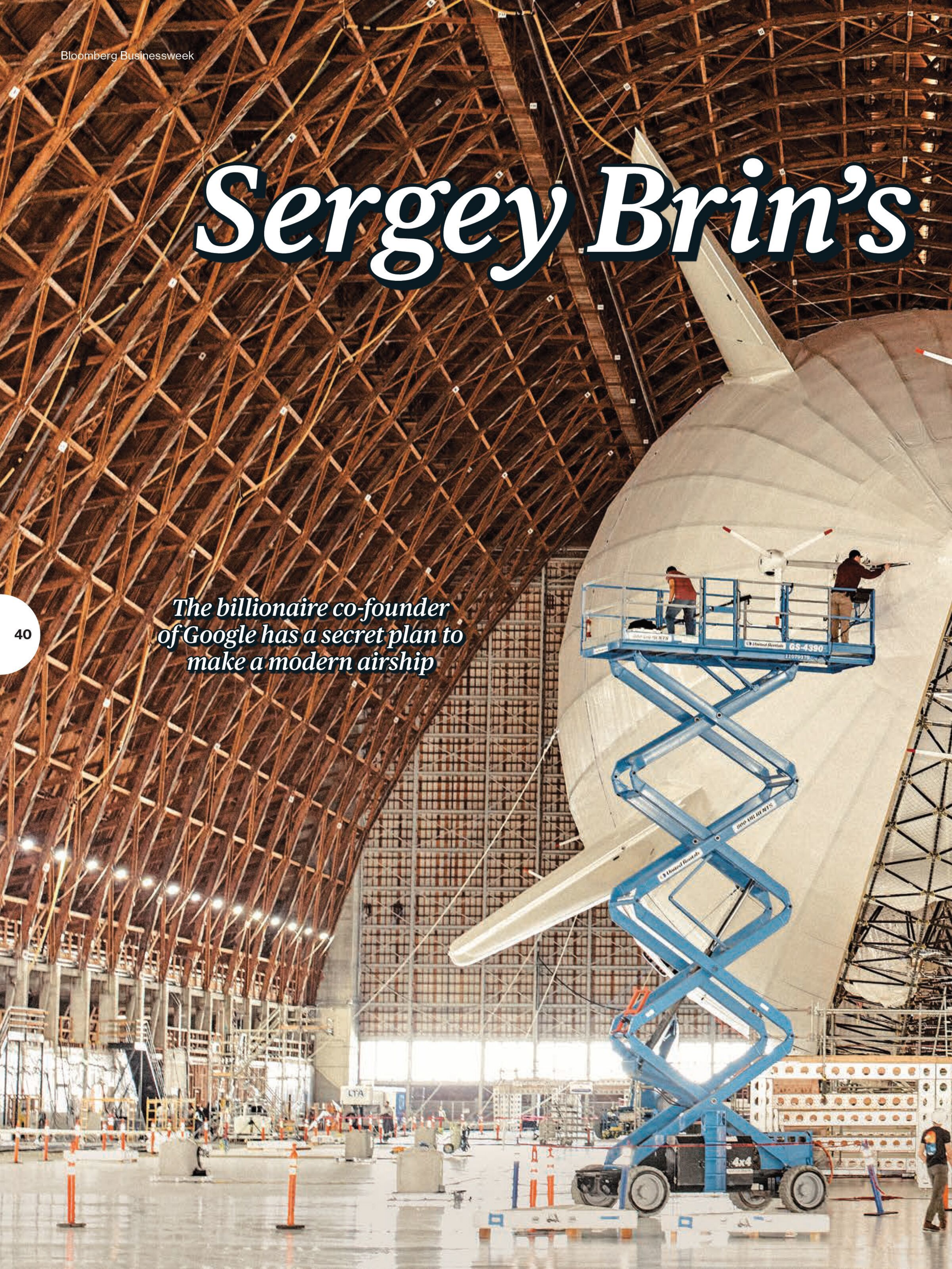
Gulden

Collaborations with NBA superstars James Harden, Damian Lillard and Trae Young have garnered some success, but nothing anywhere near what Yeezy did. Nigo, the streetwear master who founded A Bathing Ape and is artistic director for LVMH's Kenzo label, has signed a deal with Nike after working extensively with Adidas for decades, according to a report from culture magazine *Complex*. An activewear line with Beyoncé's Ivy Park label was supposed to be a big winner, but it failed to meet expectations in its first three years. A person with knowledge of the matter says sales were missing projections by about $200 million and the two parties have mutually agreed to end the partnership. (Gulden says no such decision has been made. A representative for Beyoncé didn't respond to a request for comment.) Pharrell, who signed a long-term deal with Adidas in 2014, recently joined French luxury label Louis Vuitton as its men's creative director, raising questions about the future of Adidas's most successful non-Yeezy collaboration.

For now, Gulden is going back to the retro well, something the company has always been a little too good at. With renewed interest in its old standby, the Samba, Gulden has ordered factories in Asia to increase production so Adidas can pounce while it's hot. But more than being quick on his feet, perhaps Gulden's biggest asset is his acceptance that Adidas, which hasn't been the world's largest sneaker company for 40 years, should stop trying to beat Nike at its own game. "We don't have a German street culture to export, so we need to do it in a different way," he said on a recent call with investors. His new plan carries echoes of Strasser and Moore: go after every type of athlete, even with less lucrative gear like wrestling shoes or ski boots. Then lean more heavily on such cultural hotspots as LA, Shanghai and Tokyo to generate designs for the cool stuff. "Adidas has a special DNA that should have a business model different than anybody else."

But not everyone's as ready to move on. In late April investors claimed in a suit filed in federal court in Oregon that Adidas had for years violated securities laws by not fully disclosing the risks it knew were associated with the Yeezy partnership. The company "made untrue statements of material facts or omitted to state material facts" that would have caused Adidas's share price to fall, the plaintiffs allege. Adidas disputes that allegation, saying it rejects these "unfounded claims and will take all necessary measures to vigorously defend ourselves against them."

After months in limbo, many of the 90 or so Adidas staffers who worked on Yeezy in Portland and LA finally have their new assignments. Ye, meanwhile, has disappeared almost entirely from the public eye. He's stopped contacting many of his close friends, former lawyers and business associates. On May 31, when Adidas begins selling its stockpile of Yeezys, the sneaker giant is betting that the public will focus on its stand against "discrimination and hate," and not on Ye, who will likely emerge, at least briefly, to cash a very hefty check. While Adidas will donate some of its Yeezy proceeds to organizations like the Anti-Defamation League and a nonprofit run by George Floyd's brother, it's still on the hook for 11% royalties for every existing pair sold. Which means, if sneakerheads buy up all the Yeezys from Adidas's warehouses, the company could still have to pay Ye somewhere in the ballpark of $150 million. Ⓑ



Sergey Brin's

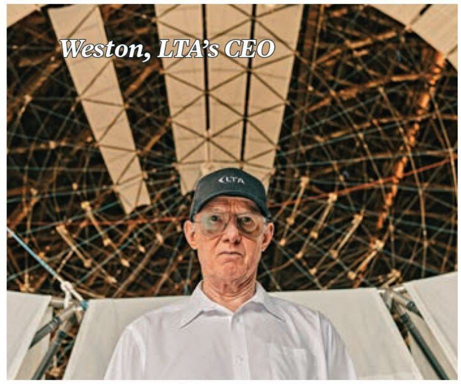
The billionaire co-founder of Google has a secret plan to make a modern airship

Next Big Idea



By Ashlee Vance
Photographs by Balazs Gardi

"Welcome to LTA: Where we are going to darken the skies."


Weston, LTA's CEO

This is how Alan Weston often greets people visiting his factory. He's partly joking, partly expressing aspiration. Weston is the chief executive officer of LTA Research & Exploration LLC, maker of airships. LTA, which stands for "Lighter Than Air," has operated mostly in secrecy since its founding in 2016 at the behest of its backer, Google co-founder Sergey Brin. That is, until now. After years of work, LTA is getting ready to unveil the Pathfinder 1, the first in what the company intends to be a sky-darkening fleet of airships.

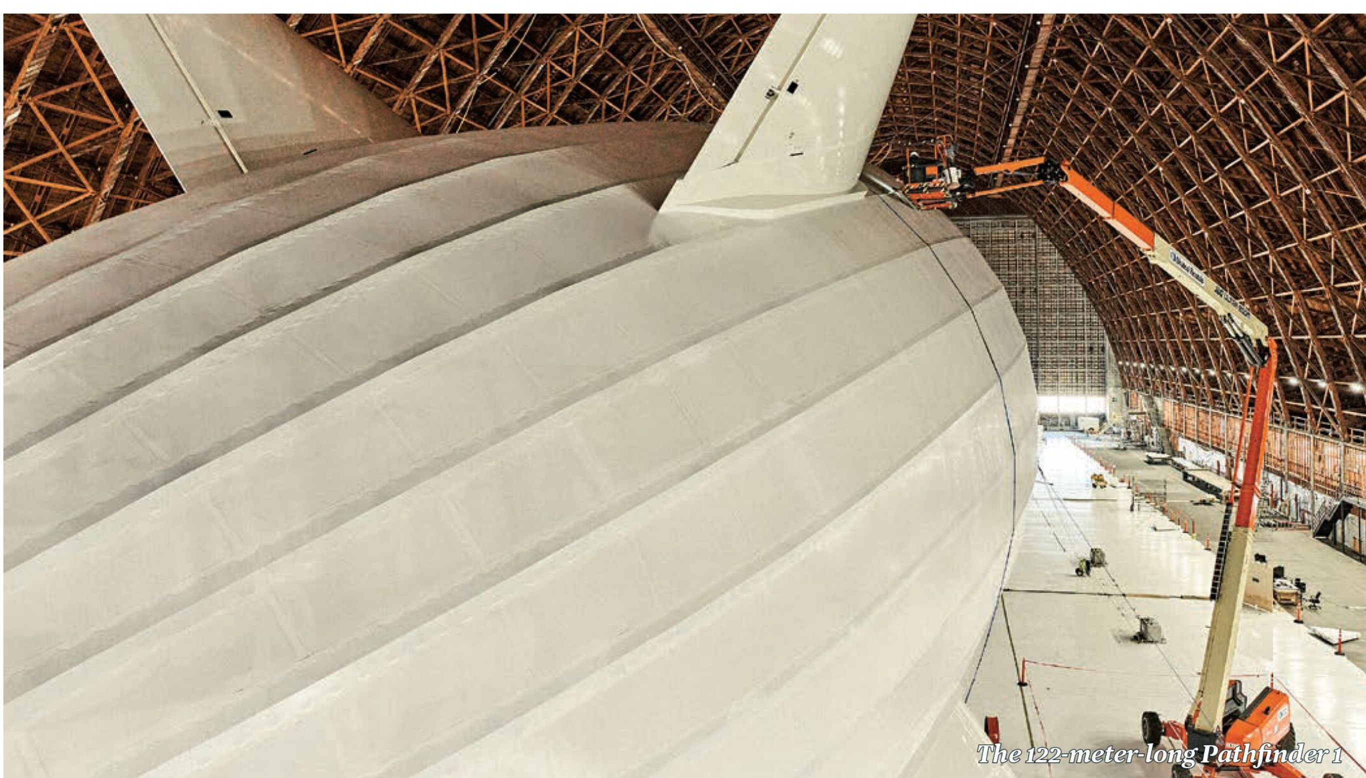
Built inside a giant hangar in Mountain View, California, the Pathfinder 1 is 122 meters long (400 feet) and 20 meters in diameter at its fattest part. From the outside, it looks much like any airship you've ever seen in photos. It's white and tapered at the back and front, and it has a dozen propellers along with a gondola. Inside the airship, though, are intricate patterns of carbon-fiber tubing and titanium joints that give it structure and strength and 13 helium bladders that provide lift—and nonflammable lift at that. It's a fraction of the size of the vehicles LTA plans to build in the future, and yet no rigid airship of its scale has been constructed since the 1930s.

Exactly why Brin wants a fleet of airships remains a partial mystery. He has declined many interview requests to discuss LTA. Still, over the past couple of years, Weston has let me observe the construction of Pathfinder 1 and the early stages of its successors, and Brin's rationale seems straightforward enough: He just likes airships. He and Weston think they could haul cargo in an environmentally friendly fashion and deliver supplies to disaster zones. One day, luxe versions might appeal to passengers who want to travel in a leisurely, exotic fashion from, say, London to New York over the course of a couple of days.

The airship business barely exists today. There are blimps that putter around stadiums with ads on their sides, and others that take photos. There are a handful of rigid airships that conduct recreational flights in Germany. And that's more or less it. This has been an industry in search of a booming, profitable purpose for a very long time.

Brin is worth an estimated $105 billion, according to the Bloomberg Billionaires Index, so he can have an airship

The advantages of airship travel are obvious; you can even open a window and


The 122-meter-long Pathfinder 1

empire if he wants one. Neither he nor his representatives will comment on how much he's put into LTA, but employees on the factory floor whisper that it's easily more than $250 million so far. Weston, though, takes LTA's business case quite seriously and very much wants to keep his 250 workers employed and busy far into the future. He looks to perfect his early models and start mass production. "I'm fascinated and excited by the potential of airships to be built very quickly with a smaller team than was used in the past and with materials that are affordable," Weston says. "And we've invented many methods that will enable that."

To which you should say, "WTF? Are we really talking about *airships*?"

Very few people reading this article have ever ridden in a proper airship. Even the Goodyear Blimp isn't what Brin and Weston have in mind—those are just big, inflated bags with a minimal gondola stuck to the underside. A blimp lacks a sturdy inner structure, so its engines must be attached to the gondola, which, among many other limitations, makes conditions noisy and inelegant for the pilots and passengers. If you want to ride in a true rigid airship, your best bet is to head to Friedrichshafen, Germany, where Count Ferdinand von Zeppelin conducted the first flight of one 123 years ago.

Located in southern Germany on Lake Constance, Friedrichshafen and its 60,000 residents have created an airship wonderland. There's an airship museum where you can walk inside a partial model of the *Hindenburg* and see what its living quarters and dining areas were like. Various airship sculptures dot the idyllic streets; souvenir shops overflow with airship memorabilia. And when the weather is right, tourists fly in a 75-meter-long Zeppelin NT. A 90-minute flight costs about $800.

stick your head outside

The advantages of airship travel are obvious from the time you leave the ground, as I felt firsthand earlier this year. Unlike in an airplane, where you're pushed against your seat, or on a helicopter, where you're praying that a god favors you, the initial ascent in an airship is slow and smooth. Once at altitude, you float gently, effortlessly. The experience seems to be some kind of wizardry. You can even open the windows, stick your head outside and take in the glorious countryside below.

The world once shared in the town's enthusiasm for dirigibles. France, Germany, Japan, Russia and the UK built hundreds of them in the early part of the 20th century. And no country made more than the US. At its peak, Goodyear Aircraft could pump out 11 a month. Militaries wanted them, to perform bombings and reconnaissance missions. There were ships of all different sizes, and some that could perform unique functions. The US Navy, for example, had one type of airship that could grab a plane on a hook in midair, refuel it and then send it on its way. For tourists, airships were cruise ships in the sky. Some voyages took them all the way from Germany to Brazil.

Airships were the transportation of the future—until the *Hindenburg* disaster in 1937. Obsessives still argue about how and why that doomed craft exploded: It was full of combustible hydrogen, coated with combustible chemicals, may have been vulnerable to static or lightning or who knows. Whatever happened, it ended the airship craze, especially for civilians.

Silicon Valley doesn't do history well. To the extent that it has anything in the way of monuments, it's a trio of enormous hangars at NASA's Ames Research Center in Mountain View. The structures have an oval, alien-spaceship quality. If you're driving on Highway 101, you can't miss them.

The US Navy began work on the hangars in the 1930s, and they were built to be homes for some of the largest airships in the US fleet. Hangar One covers 8 acres and is made of metal; Hangars Two and Three were built later out of wood because by then World War II was looming and the US needed all the metal it could get. They're among the largest freestanding structures in the world.

Brin and Weston are both long familiar with Ames Research Center. Google, whose headquarters is 2 miles away, has worked with NASA on several projects over the years. Brin and Google co-founder Larry Page struck a deal in 2007 to fly their private planes out of Ames. Weston, an aerospace engineering veteran, worked there as a director of programs until 2013. Through acquaintances, Brin and Weston got to know each other and bonded over their shared love of airships.

In 2008 a startup called Airship Ventures took over one of the hangars and began offering sightseeing rides. The company had acquired one of the Zeppelin NTs and could fly a dozen people at a time. The first person to take a ride in the airship was Brin, who also had secretly funded the startup.

Running the business proved difficult, says Brian Hall, a co-founder and the CEO. It took a long time for Airship Ventures to get the aircraft and its pilots certified in the US. And, because there was no existing infrastructure to support these vehicles, the company went to great lengths to train people and acquire everything it needed to keep the Zeppelin NT airworthy. As time went on, its business expanded into advertising and government work, but it was hard to ensure the airship was available at the right place at the right time. "We had three revenue streams but only one ship," Hall says. "The needs of one would be in conflict with the other."

By the end of 2012, the company ran out of money, Hall says. For whatever reason, Brin declined to provide a lifeline, and the company shut down. Hall had wanted to acquire more airships and perhaps even build a larger rigid version just like LTA. He says the key to success in this business is to go big, with plenty of people, parts and aircraft at the ready. "We were pretty darn close to making it work," Hall says. "It's extra frustrating to see that this has taken 10 years to happen."

Brin let Airships Ventures disappear, but he didn't give up on the idea. He and Bayshore Global Management LLC, his family office, reached out to any and all relevant players, including Lockheed Martin Corp. and a smaller company ▶

◀ called Aeros, to build a large, rigid airship. At the end of 2013, Weston left his job at Ames and became a consultant for Brin. Weston traveled the world, including to Friedrichshafen, to collect knowledge and look over past innovations. "I did a study for Bayshore on what kind of airship to build and who should build it," he says. Ultimately, Weston came up with his own design for a large airship that could be built right inside Hangar Two at Ames. Brin signed off, and soon enough, Weston was busy making prototypes and hiring a team.

Weston is 66. He's skinny, with gray hair, and almost always wears jeans, a white dress shirt and a black baseball cap. He walks fast, often with a trail of people scurrying behind him trying to keep up with what he's saying.

He has several claims to fame, the most notable of which might be bungee-jumping pioneer. While studying engineering at the University of Oxford in the 1970s, he was a founding member of the Dangerous Sports Club, which is exactly what it sounds like. As far as anyone can tell, they were the first people to think it was a good idea to attach themselves to a bungee cord and leap off a bridge. Weston first bungee jumped in England and did so again off the Golden Gate Bridge. He eluded San Francisco police by detaching himself from the cord, falling into the water, hopping in a waiting boat and then cruising to a getaway car that drove him straight to the airport. Weston, who also once flew around the British houses of Parliament in a microlight aircraft while wearing a gorilla suit and playing a saxophone, is not lacking in chutzpah.

He eventually made his way to the US Air Force where, among other projects, he worked on the Strategic Defense Initiative, aka Star Wars, the Ronald Reagan-era space-based missile defense shield. His job was, basically, to make space weapons. He ended up at NASA Ames in 2006, where he was charged with numerous projects, including the development of a low-cost lunar lander.

For the past few years, Weston and his team have been occupying Hangar Two and bringing Pathfinder 1 to life, bit by bit. Their main workspace is the heart of the hangar itself—a cavernous expanse with white-epoxied floors and then a lot of nothing, until you get to the curved framework of the wooden roof some 200 feet overhead. LTA has converted one side of the hangar into makeshift production facilities. One for electronics. One for carbon fiber. One for metal. And so on. There's office space in a trailer outside, in a parking lot.

The Pathfinder 1 is shaped like a very tubby cigar. At the front end there's a large metal bolt that will connect to a mooring mast. Scattered along the length of the body are a series of electric propellers. The gondola underneath at mid-cigar has room for a couple of pilots and a few passengers. Large, white stabilizing fins are in the rear.

Inside the main body, carbon-fiber tubes are arranged in geometric patterns and held in place by titanium joints. The interior has about a dozen sections, each with its own helium bladder, or what LTA calls cells. Laser sensors measure the volume of helium and estimate available lift.

Brin would prefer that the airship run on a green technology such as fuel cells. For now, a pair of diesel generators fastened within the airship's body sends juice to banks of lithium-ion batteries that run the propellers. Solar panels on top of the airship will provide extra energy. The Pathfinder I is fully fly-by-wire, meaning its steering and other controls are electronic, as opposed to the mechanical linkages of yore.

The materials alone represent huge advances in design. In the past, rigid airships were made of wood and metal. Weston and his team spent years developing lighter, sturdier carbon-fiber tubes and the associated bindings and adhesives needed to fasten them to the titanium joints just right. The helium cells and the airship's body all went through similar experimental trials to find, and sometimes invent, materials strong and resilient enough to withstand atmospheric undulations and intense beatings from the sun.

Some of LTA's biggest breakthroughs came in the assembly phase. Historically, companies such as Goodyear would put up a mass of scaffolding to build an airship layer by layer. This meant workers were performing delicate operations at great heights, and injuries were common. "In the old days, people were climbing up 100-foot ladders," Weston says. LTA developed a rotisserie system where the entire airship skeleton rotates, allowing workers to do their thing mostly at ground level, without putting themselves in danger. Making this work required lasers that measured the position of every tube and joint on the airship and actuators to shift the hulking mass a couple of millimeters at a time in perfect precision.

Airships could one day carry 200 tons of

The rotisserie was thought up by Kyle Kepley, who in a previous career wrote software for orchestrating large-scale fireworks shows. Kepley has been an airship buff since childhood and builds his own models for fun. He met Weston online when LTA was searching for materials for its small prototypes, and he ended up with his dream job. "There have been other airship startups and projects," Kepley says. "But they've all struggled—not because of bad designs but because they've run into money troubles. It takes a multibillionaire."

Because there aren't tons of airship engineers around, LTA has had to hire a lot of career switchers willing to train up. Mechanical engineers August Lang and Daniel Ziperovich, for example, used to do studio art and furniture design, respectively. Early on at LTA, they cleaned bird guano off the carbon-fiber tubes before visits from Brin. But soon they were designing the Pathfinder I's internal gangways. "I like the airship in the same way that I like art," Lang says. "It's really just a unique opportunity to build something very cool."

In May 2022, LTA held a news conference in Akron, inside an even larger hangar called the Airdock. Built in 1929, the giant, black, trapezoidal fortress was the birthplace of some of Goodyear's grandest airships. Like much of Akron, however, the hangar had fallen on tough times. In front of a couple dozen city officials and reporters, Weston vowed to bring the airship glory days back, with the Airdock becoming part of LTA's expanding operation.


The gondola

Pathfinder 1 will have its unveiling in California and then begin a long series of tests before it can head into the open skies. It has 28 tons of lift and should be able to travel at least 2,000 nautical miles in one go, Weston says. Its successor, to be built in Akron, will stretch to 185 meters long, and will fly faster and farther and carry more stuff. According to Weston, LTA's airships could one day carry as much as 200 tons of cargo each, almost 10 times the amount of something like a Boeing 737.

cargo and play a unique role in humanitarian relief missions


Titanium joints

It may seem a stretch, but Weston, Brin and the scattered others in the airship field are quite convinced that these things could function as a viable, green means for transporting freight that could compete with planes, trains and ships. Brin has a particular interest in disaster relief and says airships have a unique role there, too. Airships don't need a runway or much infrastructure at all to deliver supplies to a place in need. "When you arrive at a disaster site, you often show up and the place is wrecked," Weston says, pointing out that ports, airfields and roads can be inaccessible. "That's where an airship can help."

This kind of talk is intoxicating to the people in Akron. Almost everyone at LTA's event seems to recount stories of watching Goodyear blimps fly during their childhood, and they've longed for their children to have similar experiences. "Whenever we heard an airship, my whole family would run out of the house and wave to it," says Andrea Deyling, an Ohio native and airship pilot who's now the vice president for flight operations for LTA. The company has already hired a number of Goodyear airship veterans in town and set up programs to recruit students from the University of Akron. "Their goal is to make airships safer, faster and more manufacturable," says Mike Baumgartner, a retired engineer who once worked at the Airdock for Goodyear Aerospace and is now an LTA consultant. "It's really exciting to see these 100-year-old things come back to life."

Some airship enthusiasts, however, wonder whether Brin will stick with the investment it will take to keep LTA going. Katharine Board flies the Zeppelin NT in Germany and is a longtime member of the small but elite club of airship pilots. She points out that the only reason the Zeppelin flights have continued is because of their unusual backing from Count Zeppelin's foundation and patent royalties tied to his work. "It was the first airship project that was given the time and the money to really develop something special," she says. "A lot of these projects get a few million or sometimes even a billion, but that goes very quickly."

For now, Brin isn't talking. Most people at the company still operate under omerta and refer to him as "Bayshore Global" rather than by his name. Asked about Brin's day-to-day involvement with the craft, Weston says, "I'd like to really keep the focus of the conversation on the humanitarian relief mission and the airship design itself."

There is, however, one major tidbit that managed to slip out while reporting this article: Brin would very much like to go on the airship's first flight. Ⓑ

THE SHE

Maasai herders are being removed from their traditional lands



AND THE

By Paul Tullis

Photographs by Adriane Ohanesian

PHERDS

to make way for a hunting preserve serving royals from Dubai



SHEIKHS

The Tanzania-Kenya border

The village of Ololosokwan sits in the Great Rift Valley adjacent to Tanzania's Serengeti National Park, surrounded by thousands of square miles of savanna—grasslands spilling across low hills dotted with mimosa, jacaranda and umbrella-shaped acacia trees. The settlement consists of a few unpaved streets where sheep, goats, chickens and emaciated cows wander untended. A handful of shops in single-story, cinder-block buildings, painted in the garish red, orange and green corporate colors of cellphone providers, serve its 6,500 or so residents. On the outskirts, *bomas*—temporary enclosures constructed from branches that contain thatched-roof dwellings—provide shelter for families and their livestock.

K. used to call Ololosokwan home. But for almost a year, he's been living across the border in Kenya. Last June 10, K. heard shouting in the distance and hopped on a motorcycle to see what was going on. At the village office, about 200 police, military and park rangers faced off against perhaps 500 locals. As the officials tried to push through the crowd, K. says, shots rang out. Local men pulled wooden bows from their backs and unleashed a volley of arrows, with one hitting a police officer in the eye and killing him. The government men responded by firing into the crowd. "They were spraying bullets," says K., who like other eyewitnesses asked that his name be withheld for fear of reprisal from the government. Suddenly he fell, wounded by a gunshot. Someone carried him into the forest, where he passed out.

K. is a Maasai, the herders known for their beaded jewelry and the plaid shawls—dyed a sunset's spectrum of reds and oranges—they drape over their shoulders and wrap around their waists. They've lived in the area around Serengeti National Park and Kenya's Maasai Mara National Reserve for generations, driving cattle across the plains and moving frequently to find fresh grass. Many have settled in villages such as Ololosokwan, initially pushed off traditional homelands by colonial rulers cordoning off areas for tourists, then drawn by schools and health-care facilities established by Tanzania's new leaders after independence in 1961.

The incident last year, with its echoes of the colonial past, was sparked by a tourism ministry decision to convert 1,500 square kilometers (579 square miles) around Ololosokwan from a "game-controlled area," where residents are permitted to live, farm and graze livestock, to a "game reserve" devoted exclusively to wildlife habitat, safari tourism and, with the right license, hunting.



▲ Tourists watching lions in a nearby game reserve

The violence was the latest, and most severe, eruption in a long-simmering conflict involving Maasai, the Tanzanian government and a company called Otterlo Business Corp. (OBC), which the UN says operates hunting trips in the area for royals from the Emirates. For more than a decade, Tanzanian authorities have been driving Maasai from their homes and burning bomas in and around Ololosokwan, with cattle seizures, arbitrary arrests, torture and beatings, according to eyewitnesses, the United Nations Human Rights Council and the European Parliament.

Tourism in Tanzania brought in $6.6 billion in 2019, making up 11% of the country's gross domestic product. Visitors come to see the lions; the lions prey on the antelope; the antelope feed on the same grass as the livestock that provide the Maasai's primary source of calories and income. That tension has spurred government efforts to drive the Maasai from their land. But while the government insists that its actions are only in the interest of conservation and that no evictions have taken place, UN and EU officials, nongovernmental organizations and locals say Tanzania is moving people from Ololosokwan off their land to ensure the Emiratis have a place to hunt.

Serengeti National Park, with its abundant biodiversity, is a Unesco World Heritage Site visited by hundreds of thousands of travelers a year. The annual "great migration"—in which more than 1 million antelopes and zebras, pursued by eager predators, move en masse in search of food and water—passes through the region, freely crossing in and out of wildlife reserves in Tanzania and Kenya.

In 1959 the British colonial administration extended the park's boundaries to the Kenyan border, barring Maasai from building bomas or grazing their herds there. But in recognition of the Maasai's historical connection to the region, a portion of the park was peeled off to form the Ngorongoro Conservation Area, where human habitation would be allowed as long as the land was managed to benefit wildlife. Now, according to the UN, 82,000 Maasai risk being pushed out of the Ngorongoro Conservation Area and Loliondo, the area just to the north that includes Ololosokwan.

Tanzania's Natural Resources and Tourism Ministry says Ololosokwan "has no settlements," despite dozens of buildings that are clearly visible in satellite images. It was established as a

village in 1978, and in 2006 the national government affirmed locals' right to manage the land it now claims as a game reserve. With that authority, residents have for years leased portions of it to safari camps.

▼ Market day just across the border in Kenya



In 1992 the district council of Ngorongoro signed an agreement with a man named Mohammed Abdulrahim Al Ali, granting him a 10-year hunting permit in an area that included Ololosokwan and five other villages—but with no input from them. The contract refers to Al Ali as "brigadier," and in 2019 the press service of the United Arab Emirates did identify someone with that name as a lieutenant general in the country's armed forces. Today a Mohammed Abdulrahim Al Ali is chairman and owner of the Al Ali Group, a major property developer in the UAE.

At the time the contract was signed, Tanzanian law forbade hunting concessions for individuals, so the country's tourism minister, after apparently getting word of the district's contract, directed Al Ali to set up a company to manage the concession, according to a letter *Bloomberg Businessweek* reviewed. (The ministry didn't respond to requests for confirmation of its authenticity.) Four years later, a Tanzanian presidential commission identified Otterlo and Al Ali as beneficiaries of corrupt hunting deals with "top government leaders." A Tanzanian investigative reporter, whose arrest on various charges in 2019 drew condemnation from the US and UK embassies, Amnesty International and the Committee to Protect Journalists, would later report seeing documents from around that time indicating millions of dollars in donations to Tanzania's ruling party from Dubai's royal family.

The UAE government says it's "committed to preserving the rights of indigenous peoples" and that its members are obligated to follow local regulations. "UAE officials have always—without fail—respected all laws and customs of the people and tribes of Tanzania," a government representative said in a statement. Al Ali Group and Otterlo didn't respond to requests for comment.

In 1996, Otterlo built an opulent safari camp with a large landing strip a few miles northwest of Ololosokwan, where UAE military cargo planes land frequently, according to the nonprofit Maasai Environmental Resource Coalition in Washington. Locals say big-game trophy heads adorn the walls, and one member of Ololosokwan's village council says he saw men who appeared to be from the camp shoot a lion as it lay on its haunches stripping flesh from a wildebeest.

Ololosokwan's residents and Otterlo nonetheless coexisted more or less peacefully for years, with villagers taking jobs at the camp and wildlife thriving. "There were very few threats from the pastoralist communities, which had been there for many years," says Dennis Rentsch, who lived in the region for almost a decade and today serves as deputy director of the Africa program at the Frankfurt Zoological Society in Germany. "There still was a lot of wildlife seen outside the park."

In 2009, Tanzania passed a law calling for an evaluation of game-controlled areas to decide whether to change their designation to game reserves, which would prohibit all human habitation. A section of the law held that grazing would be allowed on land traditionally controlled by villages, which would seem to protect Ololosokwan's Maasai, and they began driving more cattle into the area, hoping officials would conclude it wasn't suitable for wildlife because it was overrun with livestock. In March of that year, an eviction plan was put forward for the 1,500 square kilometers near Ololosokwan, ostensibly to protect wildlife. That July, seven Loliondo-area villages were burned, with reports of rapes and beatings—an apparent attempt to terrorize people into leaving, according to UN human-rights officials and various NGOs.

As word spread, international pressure grew, and the government said the plan would be scrapped. But that didn't stop the expulsions. Tanzanian media reported hundreds of homesteads destroyed and livestock confiscated in 2015, prompting the European Parliament to issue a resolution condemning the violence. In 2017, the UN says, Otterlo staff collaborated with Tanzanian government officials to drive 20,000 Maasai from their land.

Later that year, though, a new tourism minister took office, and OBC's fortunes turned. According to the UN, Otterlo's hunting license was canceled on the advice of the national anticorruption bureau, and the company's local director was jailed on corruption charges. The new minister said an Otterlo official had attempted to buy off a former colleague with a $200,000 bribe.

After President John Magufuli died in 2021, Vice President Samia Suluhu Hassan, who preaches a doctrine of tourism as key to development, took charge. In her first public ▶

"What the government is trying

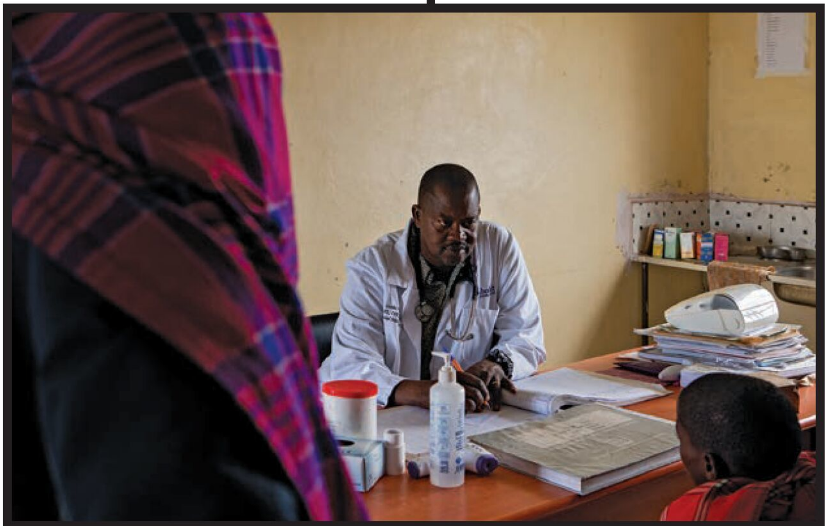
◀ speech three weeks later, she said the rising population in Ngorongoro threatened conservation efforts. Hassan has repeatedly maligned the Maasai, characterizing the eviction plans as "voluntary" relocations and suggesting at one point that they are "endangering our world heritage." Some parliamentarians have even said the Maasai are such a grave threat to the land that military action is warranted against them. In February 2022, Hassan visited Dubai, where her team signed 36 provisional agreements on topics ranging from infrastructure to agriculture. Hassan's office didn't respond to requests for comment.

Four months after the Dubai visit, the tourism ministry announced the new game reserve occupying part of Ololosokwan, and the regional leadership soon said it would delineate the boundaries. The arrival of government vehicles on June 9, though, was the first the people of Ololosokwan had heard of it. When villagers saw the convoy of SUVs crossing the scrubby plains, they walked out to ask what was happening. The officials said they were acting on orders of Tanzania's president. After the officials left, the locals ripped out the markers and guarded the spot overnight.

That same day, the Ngorongoro Council had called officials of several wards to a meeting, where they were immediately arrested. Their lawyer says those people and others who were rounded up—a total of 27—were later charged with the murder of the police officer in Ololosokwan on June 10, the day *after* their arrest. The government held them in prison for more than five months, until November, when the state prosecutor dropped the charges and they were released.

The government says Loliondo is among more than a dozen areas threatened by growing populations of Maasai and their livestock. But police haven't evicted residents of those other places. Only in Loliondo have police attacked the locals.

The June 10 incident began, according to eight eyewitnesses, when community members met in the morning at the village office in Ololosokwan. Tanzanian police showed up and repeated that they were invoking presidential powers to create the game reserve. "This is village land. We were born here, our parents and grandparents were born here," J., a council member, told the men. He showed the police papers indicating the council's title to the land. They were unmoved.



▲ Sampuerrap at his clinic

A group of about 100 women, seeking to show they didn't want any violence, collected leaves and grass, symbols of peace in their community, and walked toward the police officers. N., a grandmother, says the security forces responded with tear gas, something she'd never seen or even heard of. "The smoke affected my whole body," she says. N. tried to flee, but a gas canister struck her in the leg. "I couldn't walk. There was a lot of blood." Two women carried her away. Nine unarmed women were shot, according to the Ngorongoro NGO Network, a group of advocacy organizations in the region.

After the women dispersed, a group of men approached the police, their hands in the air. "The police said, 'Let's talk' and told us to go sit under a tree," says P., a 36-year-old herder. He and about 100 others were sitting on the ground when the police returned. One walked up and shot a tear gas canister directly at him, P. says, breaking two bones and searing his flesh.

Juma Sampuerrap, a doctor across the border in Kenya, corroborated P.'s account, saying he removed rough-edged pieces of plastic that could have been part of a tear gas canister. Sampuerrap says he treated 139 people from Ololosokwan for gunshot wounds, tear gas exposure, beatings and injuries from animal attacks suffered while escaping through wildlands. All told, some 2,000 people have fled Tanzania since June 10, according to the Ngorongoro NGO Network.

The Maasai argue that they've coexisted with wild animals for centuries and that they don't hunt them or eat their meat. In the 19th century and through most of the 20th, wildlife remained abundant even as the Maasai followed their traditional nomadic ways. With improved health care since independence, the Maasai population grew from less than 10,000 in 1959 to 93,000 in 2017. And researchers say the significant decline in wildlife numbers over the past 50 years can be traced in part to habitat loss from the increasing human population.

But those trends "have been totally misinterpreted," says Pablo Manzano, an ecologist at the Basque Centre for Climate Change in Spain, who studies the effects of human settlement on ecosystems. Official data show that sheep and goats account for almost the entire increase in the livestock population in the Ngorongoro Conservation Area and that the aggregate weight of the animals—and their consumption of grass—hasn't changed much; scientists say they've seen a similar increase in Loliondo.

But sheep and goats provide less meat, milk and income than cattle do. "If you've had the same amount of livestock for 60 years but gone from under 10,000 to over 90,000 people, then they are much poorer per capita," Manzano says. "Wildlife is decreasing because of poverty."

The International Union for Conservation of Nature, which determines threat levels to species, gave Ngorongoro Conservation Area, similar to and bordering Loliondo, its second-highest rating in its 2020 assessment of conservation prospects. Michiel Veldhuis, a professor at Leiden University in the Netherlands who studies the Serengeti-Mara ecosystem, says the reason there are still wild animals there at all is because of the Maasai's way of life, which involves minimal farming and almost no urban development. The people in Loliondo "actually did the best job of all groups living around the ecosystem" at conserving it for wildlife, he says. "Coexistence is definitely possible, but it all depends on livestock densities."

Instead of managing or planning for coexistence, though, Tanzania has sought to drive Maasai out of areas it believes it can milk for tourism dollars, according to conservationists and Indigenous-rights groups. The government, they say, is happy to corral some Maasai into bomas near the park entrances where tourists can buy bracelets and blankets, but it doesn't want them herding cattle where safari-goers expect to see giraffes and elephants. Human Rights Watch says Tanzania is now confiscating any cattle found in areas around Ololosokwan. And last March, the president's office sent letters to schools in Ngorongoro demanding they return money that had been provided for new classrooms. A month later, the managers of the Ngorongoro Conservation Area wrote to local wards ordering the demolition of structures including veterinary clinics, village offices, churches, mosques, police stations, schools and health-care dispensaries, alleging they'd been built without proper permits—even though many are government buildings. Then, in June, Flying Medical Service, an NGO providing emergency health care in remote regions for more than half a century, was stripped of the regulatory exemptions that had enabled it to operate. "We were all like, 'How is this possible?' " says Joseph Oleshangay, a Maasai lawyer who represented those arrested in connection with the June 10 violence. "What the government is trying to do is force relocation, and how do you do that? You paralyze social service." The president's office and a Ngorongoro Conservation Area official didn't respond to requests for comment.

Scientists insist proper land use planning could have helped avoid today's conflicts, and conservationists say photographic tourism concessions would bring far more money into the state budget than hunting, leading to suspicions that the corruption uncovered in 1996 and 2017 persists. No proof has emerged, though, and the government points to its ranking by Transparency International, a global government integrity watchdog, as second in East Africa on anticorruption measures. UN human-rights commissioners say a better policy would be to alleviate poverty among the Maasai rather than sending them to be poor elsewhere. In a 2022 letter to President Hassan, UN officials wrote that "the resettlement plan…fails to take into account that [pastoralists'] poverty is the result of the restrictions imposed on their livelihoods and the loss of their traditional lands, which has in turn negative effects on the environment."

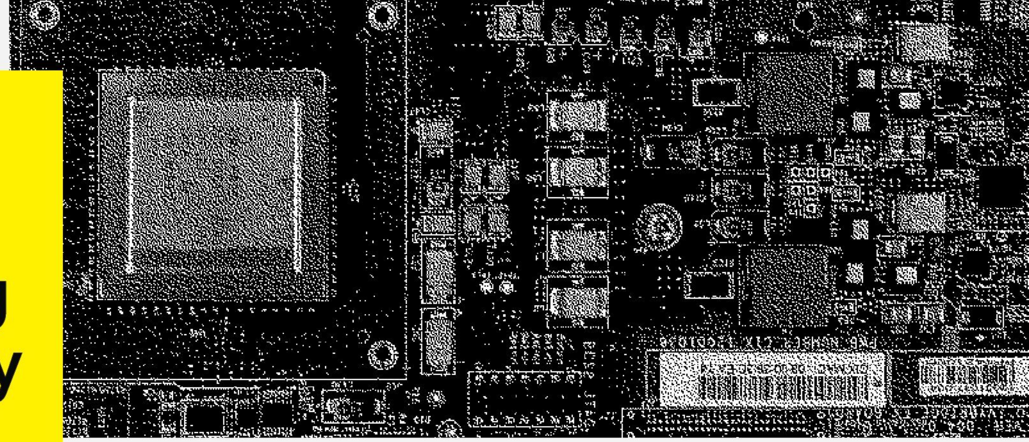
Lucas Yamat, a Tanzanian Maasai, highlights the benefits of education. He lived nomadically into his teens, then earned a bachelor's degree in economics. After finishing his Ph.D. at the University of Dar es Salaam, he got a postdoc to work in Manzano's lab. His fluency in the traditional Maa language places him in immediate good standing with elder leadership when he conducts fieldwork in Tanzania. And Manzano says sending girls to school can be even more effective than encouraging boys to study. Uneducated Maasai women have few options beyond marriage, and in polygamist societies, that often means as a second or third wife. Since women in such situations compete for status by having more children, "if you want to depopulate this area, just educate every Maasai girl to university level," he says. "It'll be solved in 15 years."

On the day of the attacks in Ololosokwan, J., the council member, watched the violence unfold from a small hill on the edge of the village. As the soldiers began firing, he set out on foot into the countryside where lions and buffaloes were prowling.

In the forest outside town, K. recovered consciousness and found himself among about two dozen wounded men and women. "I felt like I had died," he recalled months later in Kenya. The people helping him didn't trust the local clinic, because all doctors in Tanzania are government employees, and patients must fill out a form detailing how they came by their injuries. Writing "shot by police" might have endangered him further, so he was driven north into Kenya.

At a clinic just across the border, K. was told his injuries were too severe to be treated locally. So his friend drove him, still bleeding, to Narok, a larger town another two hours away. M. Thige Boniface, the doctor who treated K. in Narok, says the bullet entered near his left collarbone, ricocheted off his scapula and exited through the center of his upper back. "That guy is really, really lucky," Boniface says. K.'s three weeks in the hospital cost him 460,000 Kenyan shillings—about $3,800. "Before, I had 700 sheep and goats and 300 cows," he says. After his family sold some of the livestock to cover his medical bills, he's down to a total of about 350 head.

K.'s injuries are healing, but he remains bitter. "They try to say it's a wildlife corridor to confuse people," he says. "But it's really for an Arab hunting concession. Why do they force us to leave our homes for this?" He occasionally sneaks back into Tanzania under cover of darkness to see his family, but he doesn't feel safe. "When I go home, at night when I hear a motorcycle, I get worried," he says. His children suffer from nightmares, "sometimes dreaming about me," he says. "They cry on the phone with me and say they are afraid the men with guns will come back. It's my prayer that when they finish school they can find a job in Kenya to help themselves." Ⓑ



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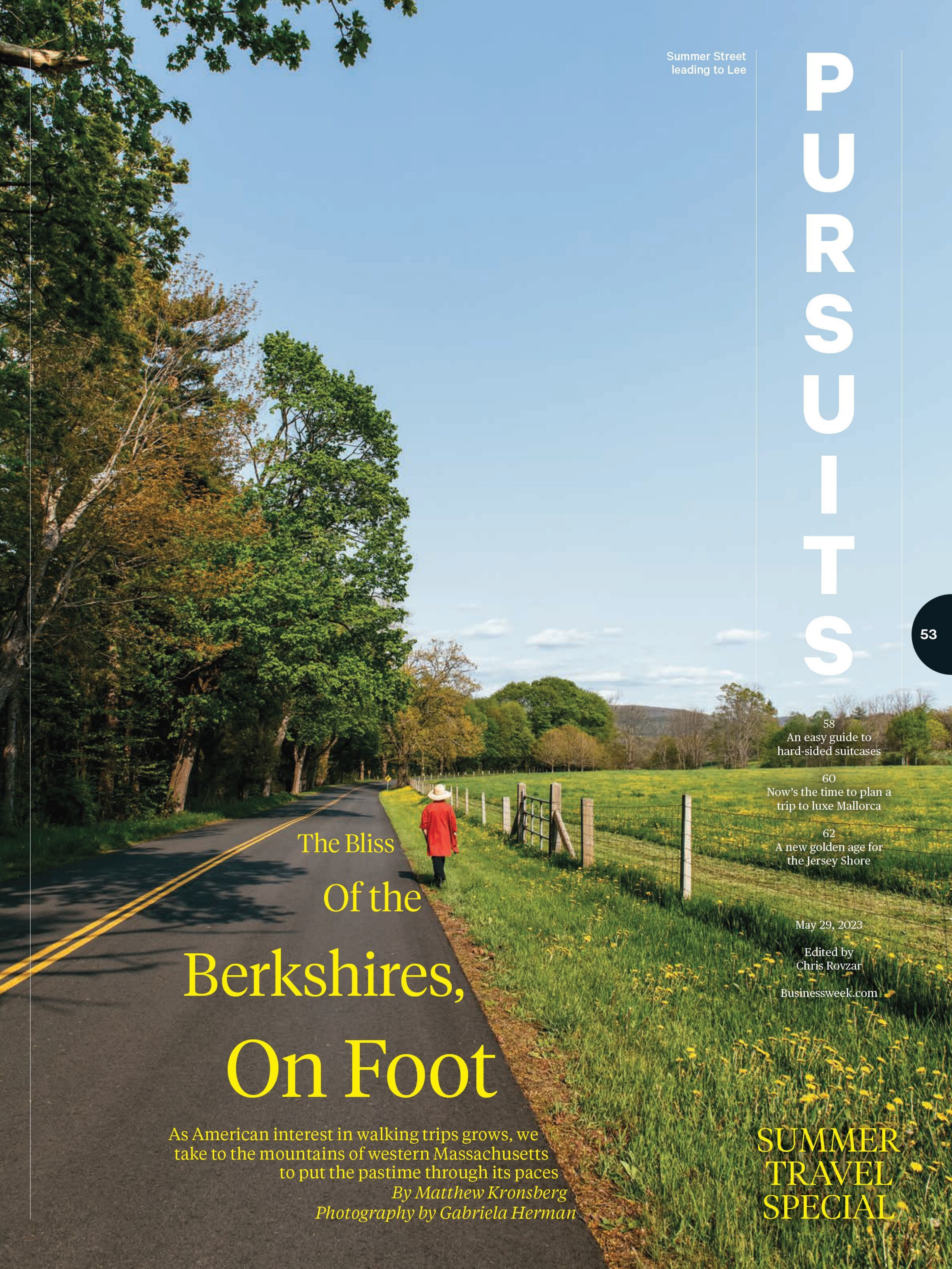


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Summer Street leading to Lee

PURSUITS

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A new golden age for the Jersey Shore

May 29, 2023

Edited by Chris Rovzar

Businessweek.com

The Bliss Of the Berkshires, On Foot

As American interest in walking trips grows, we take to the mountains of western Massachusetts to put the pastime through its paces

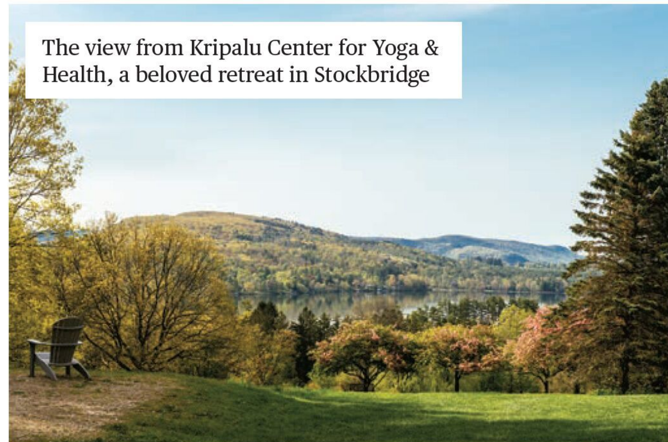
By Matthew Kronsberg
Photography by Gabriela Herman

SUMMER TRAVEL SPECIAL

My wife, Sigrid, and I are ardent road trippers. But over the years, we've often talked about seeing the world more slowly, ditching highways for cross-country footpaths such as the Transcaucasian Trail in Georgia or England's Coast to Coast Walk. We're more realists than romantics, though, so we always punted the idea. Who could predict how our legs would fare? Or our marriage? The trips remained perpetually relegated to the "someday" file, along with piloting a hovercraft.

Then a pair of books about epic walks was published this spring. Neil King Jr.'s *American Ramble*, an ecstatic recounting of a 330-mile perambulation from Washington, DC, to Manhattan, made me realize I could pursue an itinerary without venturing as far as the Caucasus. And *Walking With Sam*, Andrew McCarthy's sentimental tale of his 500-mile pilgrimage along Spain's Camino de Santiago with his teenage son, made me think walking for days could be a bonding experience, rather than the opposite. So the idea took hold again.

I reached out to McCarthy and asked for his advice. "Just go," he said. And then said again. In less than four minutes he said "just go" no fewer than 10 times, in sentences and exhortations. Was his zeal endearing and maybe a little nuts? Yes, but also very persuasive. We were going. Not internationally; we didn't have the time for that. But somewhere.

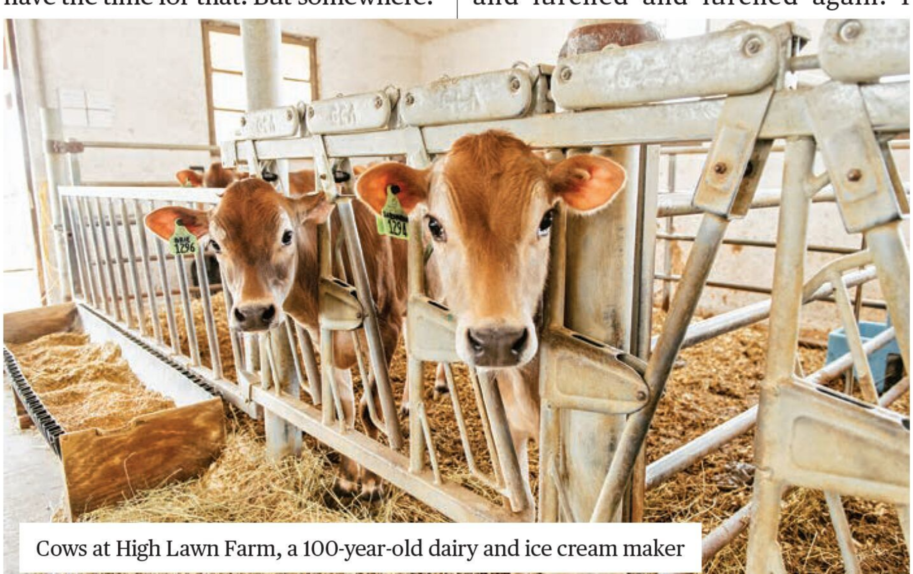

The view from Kripalu Center for Yoga & Health, a beloved retreat in Stockbridge

We found that while the US has some incredible hiking routes, including the Appalachian and Pacific Crest trails, opportunities for walking—where days end in a hotel or inn rather than a tent—are few. In most of the country, towns just aren't clustered closely enough. My search led me to Mindy Miraglia, who in 2020 started a company that could bring the profound experience of Camino-style walking to the US—specifically to the Berkshires of western Massachusetts, where she lives.

She calls it Berkshire Camino, and through it she offers single- and multi-day group walks in summer and fall. They typically run for five or six days and include downtime at upscale hotels and ambitious restaurants rather than the typical hostels and budget meals you'd expect on the Spanish trail. One offseason route Miraglia suggested sounded especially doable, at four days and just more than 50 miles, from Stockbridge to North Adams.

So we went.

We'd barely made it outside New York City when, on the Taconic State Parkway, my ancient Audi balked and lurched and lurched again. I wasn't going to let the trip end before it began. After nursing the car to a nearby Amtrak station, I texted a woeful update to Miraglia.


Cows at High Lawn Farm, a 100-year-old dairy and ice cream maker

"Remember…" she replied gnostically, ellipsis and all, as if delivering a fortune, "on a journey like this, trail angels intervene."

An hour and a half later, there she was, picking us up at the train station in Hudson, New York. She dropped us near the Massachusetts border in Hillsdale, at Little Cat Lodge, a Swiss-style building with Alpine-chic interiors. We had time for a hearty schnitzel dinner and a good night's rest. The next morning, right on schedule, we set off.

On our first day, we walked 15 miles from picturesque Stockbridge to the artsy town of Lenox, which by car (and without leisurely detours) would've taken 10 minutes. Miraglia had ferried us to our starting point. She also came along for the day to guide us over the roundabout route she'd cobbled together from country lanes and forest trails—combinations one could never coax from the hiking app AllTrails or get Google Maps to conjure. (Trust me, I'd tried.)

We carried all our belongings with us, though Berkshire Camino can shuttle them from hotel to hotel for travelers. I used a midsize Mystery Ranch Scree 32 daypack, while Sigrid wore a Jade 28, a smaller backpack made by Gregory. We'd chosen them for their supportive hip belts and weight distribution, which we could adjust with tensioning straps. Next time, we told ourselves, no laptops.

As we arrived in front of a stone


High Lawn's perfect pit stop

grotto at the 350-acre National Shrine of the Divine Mercy, Miraglia asked us to "set our intentions" for the day. Mine was basic but sincere. I wanted to experience the tranquility that comes from having just one goal at a time: in this case, making it to Lenox. Sigrid kept hers to herself.

The first 7 miles hummed along. When we walked into Joe's Diner for a lunch break, it felt like striding right into a Norman Rockwell canvas. (If we had more time in Stockbridge, we could've checked out his museum there.) The diner, at the heart of the setlike town of Lee, is mythically depicted in *The Runaway*, the artist's famous painting of a youngster on the lam. And although there were no bindle-toting boys sitting at the counter, I imagined that my lemonade and hot dog—on a griddled split-top bun—was exactly what a school-age escapee would've ordered.

From there, the town gave way to pastures as we wound step by step toward the elaborately turreted, 100-year-old High Lawn Farm dairy, famous for its "farm to cone" ice cream. Walking gives ample opportunity for anticipation, to smell the grass munched by the herd of Jersey cows. It satisfies a craving many of us have these days, to move through the world in an immersive, sustainable way.

When an ice cream maker has the confidence to churn unadorned sweet cream, that's the flavor you order. I sat down on a wooden bench, shed my pack and relished my choice. Nearby, a father was reading from one of Roald Dahl's memoirs about his time as a World War II pilot to his two young sons.

We clocked seven hours of walking on our first day, but by the time we arrived at the Constance, one of a trio of recently refreshed Victorian inns run by the Lenox Collection, I was focused less on the ground we'd covered than the way each stop gradually came in and out of focus, giving small moments of time to sink in. There was the forest path lined with bloodroot flowers and scarlet elf cup mushrooms. The woman in pearls and a blazer taking out her garbage, who asked us if we'd happened to see a bear in the neighborhood. (No, thankfully.) And the snaking line of people waiting to enter a tent with a sign reading "Confession Confession," which served as a real foil to the magnificent formal gardens that led us to Edith Wharton's mansion, the Mount.

To my great surprise, after our arrival in Lenox, I was still eager to explore. So, despite a surfeit of fine dining options within blocks of our hotel, I proposed dinner with a side of live music at the Apple Tree Inn on the outskirts of town. "What's another 2 miles?" I asked my wife, when Uber turned up blank. She looked at me as if I'd lost my mind.

I have no regrets. The Arts and Crafts-influenced Ostrich Room lounge was beautiful; the food, rib-eye with chimichurri, delicious; and the band, Clare Maloney & the Great Adventure, captivating. When I finally found a car for the way back to the hotel, it was $50: comically expensive, but absolutely worth it.

The summery weather and surprisingly easy walking came to a chilly, soggy halt on Day 3. When we woke up at the Hotel on North in Pittsfield, it was raining, the temperatures were stuck ▶



Strolling down Barn Road, near Lenox

◀ in the 50s, and—despite my wearing well-broken-in Danner Logger boots—I'd gotten a blister on my big toe. It all conspired to make the smooth, flat ribbon of the Ashuwillticook Rail Trail, which runs 12.7 miles from Pittsfield to Adams, feel like a slog. Under my breath, I uttered a prayer for a trail angel to deliver us to our next overnight stop, the Colonial-era Harbour House Inn in Cheshire. It went unanswered, and I barely said a word over the 28,795 increasingly painful steps my Fitbit said it took to get there.


The Apple Tree Inn, on the outskirts of Lenox

I've never been more happy than I was on arrival, sitting in a cushy wingback chair in the cozy Pinterest-Victorian parlor, proffered just-baked oatmeal cookies. By the time I signed my name in the guest book the next morning, blister lanced and bandaged, I was eager to take on the final leg of our journey: a proper hike to the industrial-town-turned-art-hub of North Adams, via the 3,489-foot-high summit of Mount Greylock.

Berkshire Camino's summertime itineraries call this literal high point a time to celebrate and reflect. But on our trip, late-season flurries began about halfway up; at the summit, the temperature hovered around freezing, the majestic views hiding behind a curtain of clouds. "Things will happen," I reminded myself as we snarfed down some power bars and headed toward North Adams.


The back deck at Little Cat Lodge

Our quads ached. On a whim, I turned around and headed backward down the mountain to let other muscles do the work. Sigrid took my hands to help me avoid stumbling, then let go to spin around herself. It felt silly but sublime, the two of us walking backward down the mountain, snow falling gently around us. But somehow it was every bit as meaningful as any summit celebration. In that moment, I got my first glimpse into the subtly mystical and transformative thing that happens after a few days of walking.

By the time we reached the empty trailhead parking lot, 12 miles and a few thousand feet in elevation change from the morning's departure, I was feverishly dreaming of putting my feet up at the eclectic new Hotel Downstreet in North Adams, an additional 2½ miles downhill. Maybe I'd also polish off a raft of the miniature frankfurters that nearby Jack's Hot Dog Stand has been slinging since 1917. I'd walked enough.

Just then, a small SUV whipped into the parking lot and stopped. The driver rolled down her window. "Where are you going?" Downtown, we said. "I'll take you." Maria, as she introduced herself, hopped out and opened the trunk for our bags. Sigrid and I looked at each other, both to confirm that this really was happening and for a gut check: Were we really going to get into a car with a stranger in the woods? Yes. "The Lord sent me," Maria said, pointing to the sky as she closed the hatch.

As it turned out, Maria, who appeared to be in her mid-40s, had run up and down Mount Greylock every week for years while training as a track-and-field athlete. She knew what sore feet felt like.

Driving at 35 mph felt like warp speed. I was amazed how quickly my brain had adjusted to expecting the world to pass by at a walking pace. My wife and I had made a small dent in the map under our own steam—and still liked each other enough to consider doing it all again, somewhere else. And although we'd been skeptical about the mysticism and fervor that both Miraglia and McCarthy had described before our trip, now we bought into it.

When we arrived at the hotel, I tried to offer Maria money for the ride. She adamantly refused. And just before leaving, she justified it: "I'm your angel." Ⓑ

Luxe Luggage

Whether you're on holiday or a business trip, these six suitcases will help you pack it all in

By Nikki Ekstein
Photographs by Janelle Jones

So you're back to traveling the world, but you're still toting around that same old beat-up suitcase. Isn't it time for an upgrade?

A dizzying number of new hard-sided luggage brands now offer options for most price points and travel styles. We put almost a dozen carry-on models to the test, packing each for a couple's long weekend in a big city and for a weeklong business trip.

The goal was to fit the same items into each roll-aboard: two or three pairs of shoes, Dopp kits, layers for transitional weather, nice outfits for dinners or meetings, and a few options for everything in between. (And for all you overpackers out there, we found the best bag to check, too.)

Here's how the cases stacked up.



Best for Multistop Trips
Solgaard 4.0 medium carry-on closet
The premise seems implausible: Pack into the Solgaard's five shelves in its proprietary closet organizer, then tighten the compression straps and drop the whole thing into one side of the suitcase. Yet it works, making it possible to unpack and repack in seconds. There's space on the other side for dress shirts or shoes that don't fit into the closet's small compartments. Throw in some wrinkle releaser—the compression works so well, it can cause creases—and be aware that the outer latches can be very tricky to close. *$345; solgaard.co*



Best Value
MVST Space
Business-class looks for the price of economy: That's the idea behind MVST and especially its heavy-duty aluminum hard-sided cases, which come in silver (shown), gunmetal and black. (Its design references a classic Rimowa, which is four times as expensive.) The grooved exterior, rubber seals and zipperless closure are all designed to be unbreakable, or as close to it as possible. The slight compromise for that sturdiness is size and weight. At 9.4 pounds and with 35 liters of packable interior volume, it's a little heavier and smaller than its competitors. *$395; mvstselect.com*



Best for European Travel
Herschel Heritage hardshell carry-on
The smallest model by Herschel meets the restrictions for most European airlines, which tend to fly space-pinched planes, and has interior compression straps that effectively pack down a week's worth of clothes. (Men with large feet will have a hard time fitting a pair of dress shoes, though.) Its waffle-textured exterior, made from recycled water bottles, is lightweight—just 6.5 pounds for the whole bag—and cool-looking, but it can occasionally trap dirt in its tiny crevices. Given its size and easy handling, it's also a great choice for kids. *$225; herschel.com*



Best for Students
Roam carry-on
It feels flimsy at first, but Roam's polycarbonate shell is surprisingly sturdy, and it's covered by a lifetime guarantee. (So are the wheels, zippers and liners.) It's also a blank canvas for personalization. Travelers can customize every detail, including the handles and the wheel trim, choosing from 13 colors. *$550; roamluggage.com*



Best Checked Bag
Paravel Aviator Grand
Everything down to the monogramming on this suitcase is sustainable. The brand's promise is to be completely carbon neutral; the leather trim is vegan, and the rest of the materials—including the zippers and nylon lining—are recycled. The bag can take rough handling, too, and scuffs from our first trip washed off with ease. *$475; tourparavel.com*



Best for Road Warriors
Arlo Skye zipper carry-on max with front pocket
Along with lacking nothing in the design department, Arlo Skye's latest also excels in conveniences and durability. With a capacity of 47 liters, it's more spacious than most similarly proportioned bags and opens and closes intuitively, with locks on the top rather than on the sides. Its hard-shell outer pocket easily fits a laptop and in-flight necessities without taking up more than 10% of the main compartment. It's also expandable and antimicrobial, and it has a rapid phone-charging port. If you want to have only one suitcase, this model will be a great contender. *$395; arloskye.com*


The Jardines de Alfabia

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Mallorca Reaches Higher

The latest hotel openings shift the island's focus from Mediterranean parties to mountaintop bliss

By Sarah Rappaport

There wasn't a party in sight earlier this month as the sun set over the Grand Hotel Son Net, in the rural village of Puigpunyent in Mallorca. Instead, as the stone buildings turned golden, the only soundtrack was the bleating of the goats that lived on the estate. I felt calm and restored.

Last time I visited the Spanish island, in 2018, I took a budget flight from London to Palma and spent most of my time swimming in the sea, surrounded by Brits. Club hits blasted from the beach, its rowdy crowds drunk on G&Ts.

In the past year the island has been embracing its quieter side, playing up its stunning inland beauty to aspire beyond the package-tour and cruise sets. Work-from-anywhere warriors have begun making it their year-round home.


The pool at Can Ferrereta

The grand vision is to get this island 120 miles off Spain's Mediterranean coast onto the itineraries of American travelers who'd be more likely to head to Barcelona or Madrid for the culture and food. New luxury hotels, including one that used to be Richard Branson's private estate, represent big steps in that direction. The properties aren't the all-inclusive, beachside resorts of British pensioners; several are historical *palacios*, or mansions, on huge tracts of protected mountain land.

"Mallorca used to be about doing nothing. It was about going to party and living the high life," says Virginia Irurita of travel agency Made for Spain and Portugal, which she founded in 1999. "Now people want to see how locals live."

The change was catalyzed last year when United Airlines introduced a direct flight to Mallorca from the US. It leaves from Newark, New Jersey, and last year ran from June 2 to Sept. 23. American customers generally spend more than their European counterparts, and the island's tourism director puts the economic impact of the flight at €30 million ($32.4 million) a season. This year, United extended the window by a week.

The local government is taking steps to transform Mallorca's image, too, requiring that all-inclusive resorts limit guests to six alcoholic drinks a day and cutting down on the number of cruise ships allowed to dock in the harbor of Palma, the capital city. It's also planning to cap the number of hotel beds on the island at 430,000. (The population of Mallorca is just over 930,000, and tourism is the biggest contributor to the economy, accounting for half the island's jobs.)

This approach ruffled feathers in the UK last year when the *Sun* newspaper quoted tourism director Lucía Escribano saying: "We are not interested in having the budget tourists from the UK. We don't care if they go elsewhere to Greece and Turkey." Escribano later said she was misquoted.

I asked her about the new regulations when I visited for a warm week in early May. Over a lunch of tumbet—a Mallorcan take on ratatouille—at Hotel Almudaina's SkyBar, she tells me only a small portion of tourists have been a problem. The laws are meant to help families enjoy themselves safely and to help create a year-round economy by attracting visitors keen on local cuisine or cultural events. Take the January festival for Sant Antoni, patron saint of animals, filled with bonfires and dancing.

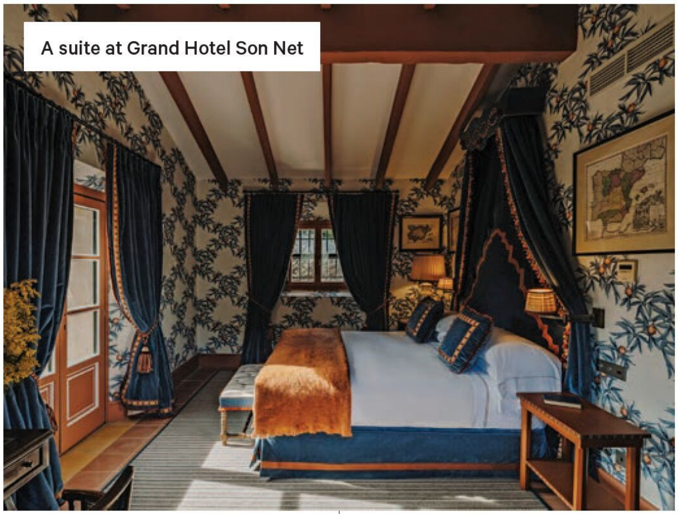
Travel agents say that's

COURTESY COMPANIES

what people are seeking. "Clients want authenticity now," Irurita says, "like going to the weekly market in Sóller and buying wine, cheeses and sobrassadas," a type of cured Mallorcan sausage.

In 2022 tourists broke spending records across the Balearic Islands. And Mallorca has added 10 five-star hotels since 2018, with more coming.

My taxi driver called the Grand Hotel Son Net one of the most lovely spots on the island, though I can't imagine any place prettier than the arabesque Jardines de Alfabia, lined with Mallorcan garballon palms. Yet, he's right: As we drove up toward the Tramuntana mountains, the terra cotta pink palacio emerged like a beacon over the town below. The interiors are exquisite. Around every corner are antique oil paintings, bold colors and artfully mismatched patterns. Inside the palacio's old olive oil press, the main restaurant merges local ingredients with the grandeur of a medieval banquet hall.


A suite at Grand Hotel Son Net

Forty minutes away by car up winding mountain roads is Branson's Son Bunyola hotel, which has been 20 years in the making. It offers 26 rooms and suites with beamed ceilings, crisp interiors and sprawling terraces. The estate is huge, enshrined in more than 1,000 acres of forest and rocky coastline, lapped by gentle waves. General manager Vincent Padioleau picked me up in a Jeep to show me around. "There's not two hotels in Mallorca that have this view," Padioleau says. The compound's whitewashed main building was a home that dates to the 16th century; guests can stay in one of the turrets with sightlines to the sea.

High-end options have existed on the island for a while, of course. The well-loved La Residencia, a Belmond Hotel, opened in 1984 in the artists village of Deià and charges more than €1,000 a night in high season. The Jumeirah Port Sóller, with its top-rated spa, is built into the side of a cliff. But the spate of new luxury hotels is solidifying the island's appeal as a sophisticated destination.

The Lodge Mallorca, a 387-acre estate nestled among groves of olive and almond trees, is now welcoming guests for its first summer season. In June, British photographer Kate Bellm will open the art-centric, 15-room Hotel Corazón on a farm estate between the towns of Deià and Sóller. Mandarin Oriental Hotel Group and the Four Seasons Hotels Ltd. plan outposts, too.

All this development is "resonating with the luxury consumer," says Carolyn Addison, head of product at elite travel outfit Black Tomato. "Mallorca is on the up and up while still maintaining a very 'if you know, you know' aspect."

It could all sound a bit sceney, but for now, that's far from true. At Grand Hotel Son Net, I walked past the hotel's vineyard and pens of sheep on my way to the small town below. At Son Bunyola, Padioleau explained that they were growing their own produce and were constantly herding wild goats away from the kitchen garden. Everywhere, hikers rambled by on their way to villages and the glittering sea below. There wasn't a cruise ship or tour bus to be found.

WHERE TO EAT AND DRINK

El Txoko de Martin: Spain's most Michelin-lauded chef is Martín Berasategui, and this Palma spot is his casual take on neighborhood dining—Txoko means corner, or small place, in Basque. Try the heavenly cod on a bed of confit potatoes with pepper aioli. Mallorcan wines dominate the menu; the Mosaic white is crisp and just €4 a glass.

El Camino: London's Barrafina redefined Spanish food for the UK capital; now its proprietors have returned to put their fingerprints on their ancestral hometown of Palma, slinging fantastic classic tapas from behind a long white marble bar counter. Book ahead—the place gets busy.

Vandal: Located in Palma's leafy Santa Catalina neighborhood, this local favorite serves up small plates with suggested drink pairings, such as a pisco bloody mary oyster with a cool glass of cava. I loved the macaron starter, filled with savory Idiazábal cheese. The cocktails come strong; be brave and try the Vandal Attitude, with bourbon, ginger syrup, mint and chocolate bitters.

WHERE TO STAY

Grand Hotel Son Net: The Cortesin group lovingly renovated this historic palacio, with sumptuous interiors done by Spanish designer Lorenzo Castillo. Its common areas and rooms are a kaleidoscope of patterns and furnishings—think Moorish tilework and toile drapery—a contrast to the serene Tramuntana mountains outside. It's a great way to get both town and country: the hotel is only 20 minutes from Palma. *Rooms from €800*

Son Bunyola: Richard Branson's newest Virgin Limited Edition property features just 26 rooms and suites, two of which are in old medieval towers, on some of the most stunning land on the island. Enjoy mountain views and private beach access, plus two restaurants and a spa. *Rooms from €800 in high season; opens on June 16*

Sant Francesc Hotel Singular: The best option for a chic cityside stay, it's in the heart of the old town of Palma, with a hidden garden restaurant. Some suites have original frescoes on the ceiling and come with views of the medieval church opposite. The showstopper is the rooftop pool. *Rooms from €325*

Can Ferrereta: This hotel's opening in 2021 put the small southeastern town of Santanyí on the map for luxury travelers. An understated arrival gives way to a rustic paradise of local stone and wood beams, complete with a 25-meter (82-foot) outdoor pool and bar. Check out the Sa Calma spa with its own saltwater pool and sauna, and save room for dinner at Ocre. I'm still dreaming about the arroz meloso, a creamy rice dish with burrata and local vegetables. *Rooms from €315*

Glamour? On the Jersey Shore?

The classic summer escape gets its glitz back

By Nikki Ekstein   Illustration by Karlotta Freier



Developer Bart Blatstein's earliest memories of the Jersey Shore are of pomp and splendor. "It was beautiful," he says, referring to the 1960s. "At night, people got dressed up for the boardwalk." Older women would put on their best jewelry and get pushed about in open-top wicker rolling chairs, he says. "It was quite the scene."

The decades that followed were not kind. There were periods of mobster violence, long-lasting reputational damage courtesy of early-2000s MTV and $37 billion in devastation from Superstorm Sandy. In popular awareness, there's no doubt the Jersey Shore has a beloved-but-bad rap.

Recently, though, a slew of sophisticated openings and nine-figure development deals up and down the 130-mile-long coast is helping to return the Eastern seaboard's most maligned beach destination to its glory days.

Take Atlantic City, where Blatstein spends much of his time. Here, on streets made famous by Monopoly, casino titans have invested more than $1 billion, with Caesars Entertainment providing $430 million of that. Remodels of its namesake resort, Harrah's and Tropicana wrap this summer, including dozens of new restaurants backed by top chefs such as Gordon Ramsay and Bobby Flay. The Caesars tower will also welcome a Nobu hotel and, in June, an offshoot of Las Vegas's carnivalesque theatrical dining concept Superfrico.

Blatstein's baby is practically next door. The $150 million revamp of the former Showboat casino and resort is the first megaproject to hit Atlantic City in decades that's not centered on gambling. "The casinos are focused on keeping people in," he explains. "I want people to enjoy the city as a whole."

In July he'll cut the ribbon on Island Waterpark, a 120,000-square-foot beachfront amusement park. Under its retractable roof will be an adults-only zone with poolside service inspired by the One&Only Palmilla in Los Cabos, Mexico, where attendants spontaneously show up to massage your feet. For toddlers, there will be a splash pad; for teens, a surf simulator and 12 towering waterslides. The top-to-bottom renovation of the adjacent Showboat—which already boasts the world's largest arcade—comes next. The aim is to



boost the share of family visitors to the city, which currently sits at a mere 8%.

Not all of the innovators along the shore are dealing in flashy projects with outsize budgets—though there's more of that in Long Branch, roughly an hour south of Manhattan by ferry and car. That's where the Kushner family pumped $300 million into seaside Pier Village in 2019, with more investment to come. Rooms at the Wave Resort start at $350. Go on a busy summer weekend and the scene is almost Hamptons-y—think DJs, seafood towers and elaborate margaritas—with elbow-to-elbow crowds on the sand during the day.

In Cape May, at the shore's southernmost point, the simple upscaling of a ferry terminal to feature Brooklyn-worthy food trucks represents a major evolution for the tiny town rich in Victorian bed-and-breakfasts. And that terminal may soon serve the south shore's first luxury resort in 50 years.

"We want it to be the nicest hotel on the East Coast," Icona Resorts Chief Executive Officer Eustace Mita said at an Ocean City council meeting in February of its $150 million, 160-room beachside proposal. "This end of the boardwalk needs an anchor to give it class we know it deserves."

Farther north in Asbury Park, known as a spiritual home of rock 'n' roll, change has also been gradual, quietly building to a crescendo for years. Most significant is the arrival of St. Laurent Social Club, a whitewashed historic building with 20 pale-hued hotel rooms (from $450) and a full-service pool deck. Its excellent restaurant, Heirloom, is run by *Top Chef* and Eleven Madison Park alum David Viana, who makes market-driven New American food. (The blood orange marmalade duck is the runaway favorite.)

That kind of subtle sophistication has flourished beyond Asbury Park's newly refinished boardwalk, where nostalgia still reigns supreme. Just off the arterial Cookman Avenue is Laylow, a red-lit cocktail den with a world-class menu. (One hit, Guava the Hut, is a gin-and-fruit punch served in a fish-shaped glass with tiki umbrellas.) Purple Glaze, a closet-size doughnut operation, assembles its delights to order, with flourishes such as cannoli filling. Nearby brunch spot Cardinal Provisions offers top-notch pastries: xuixos, a Catalonian churro-croissant mashup stuffed with things like passion fruit curd.

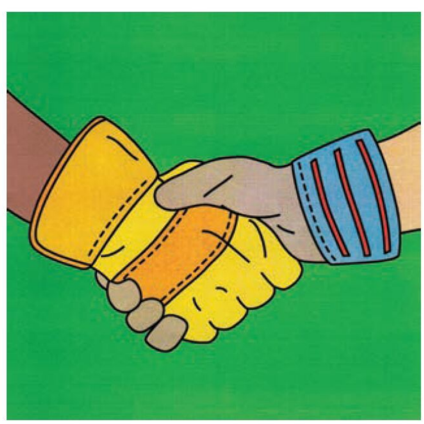
"It's almost like people didn't realize they wanted luxury in Asbury Park," says Matthew Grey, head of marketing at the St. Laurent. "Wait until you see the number of million-dollar-plus condos they're building around here," adds club co-owner Merissa Fleischhauer. "The demand for a higher level of experience is only going to keep growing."

Ten minutes south, in quiet, residential Bradley Beach, George DiStefano agrees. "We're getting so many people who are done with the traffic to the Hamptons," says the 30-year-old. His boutique hotel, the James Bradley, has 16 monochromatic rooms (from $325) brimming with interesting textures; a quiet, dune-lined beach is a block away. The conversion he describes has happened slowly, even stealthily. "Here's what everyone always tells me," he says. "'We had no idea this kind of place existed in New Jersey.'" Ⓑ

Industrials Lead The Way on M&A

By Brooke Sutherland

Dealmaking is off to a slow start this year, because of rising interest rates and brewing economic concerns, but there's one niche that's booming: industrial takeovers of industrial assets.



So far in 2023, manufacturing and materials companies have proposed or announced deals valued at more than $110 billion for businesses that operate under the industrial umbrella, according to data compiled by Bloomberg. The second quarter is already the busiest period in a decade for acquisitions of that kind involving at least one North American company, apart from some outliers that were dominated by a single, blockbuster transaction.

Gold miner Newmont Corp. is acquiring rival Newcrest Mining Ltd. in a $19 billion deal, while lithium producers Allkem Ltd. and Livent Corp. are merging in a transaction that values the combined entity at $10.6 billion. Carrier Global Corp. is buying German heat pump maker Viessmann Climate Solutions SE for $13.2 billion, while Emerson Electric Co. is buying test-and-measurement company National Instruments Corp. for $8.2 billion. There's also been a surge of smaller deals from the likes of nVent Electric, DuPont, Honeywell and Heico.

Industrial companies have faced significant competition in recent years from private equity firms, but rising interest rates have shifted the advantage back to buyers who want businesses for strategic rather than financial reasons. Globally, the number of announced deals involving private equity buyers declined more than 40% in April from the year-ago period, according to S&P Global Market Intelligence. "Private equity is not as present in trying to buy things" now that borrowing is more expensive and more difficult, says Honeywell Chief Executive Officer Darius Adamczyk. "We see less intensity in terms of competing for the assets."

A rewiring of global supply chains and hundreds of billions of dollars in US and European Union stimulus funds aimed at encouraging investments in infrastructure, semiconductors and technologies to combat climate change have also helped refocus industrial companies on their core businesses. Industrial takeovers of industrial assets were scarcer in recent years, in part because many would-be buyers were more focused on chasing faster-growing software assets.

Lithium is a key ingredient for electric vehicle batteries. Newcrest's gold mines also produce copper, and the world is going to need a lot more of the metal to build climate-friendly technologies. Heat pumps are an important part of efforts to reduce carbon emissions from buildings, particularly in Europe. It's a "once-in-a-generation opportunity," Carrier CEO Dave Gitlin said of the European heat pump market in a presentation earlier this month. "It has to grow and it has to grow in kind of that double-digit range almost by definition." Ⓑ —*Sutherland is a columnist for Bloomberg Opinion*

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